CONSULTATION PAPER

TASK FORCE ON INDIRECT TAXES

CONSTITUTED BY

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PREFACE

Tax administration is a difficult and unenviable task, but nevertheless critical for revenue generation required for accelerating growth and to improve the quality of life of the citizens. This report of the Task Force is in the form of a Consultation Paper. The Consultation Paper seeks to bring our indirect tax system at par with the best international practices and thus serve the needs of the national economy.

In the short time at its disposal, the Task Force has held discussions with large cross section of trade and industry, importers and exporters and individual tax payers. It also had wide ranging consultations with tax administrators and tax planners. The objective was to address the terms of reference and arrive at long term sustainable solution to enhance transparency, reduce transaction costs, promote growth, improve tax compliance and thus to increase tax to GDP ratio through world class fiscal regime.

What is important is the realization of an urgent need to provide a '*big push'* to the systemic reforms for bolstering tax payers' confidence and to the rapid deployment of information technology on the lines of other dynamic economies. This is possible by laying the foundations of our laws and procedures on internationally accepted principles. The bottom line is that transparent and rule bound law and procedures, supported by investment in information technology, including automation, with human resource development and training would improve all-round compliance. Consequent reduced transaction costs, increased exports and higher revenue mobilization are the obvious advantages.

The potential benefits to the economy from the implementation of our recommendations can be considerable. According to a recent Export-Import Bank study (October, 2002) on transaction costs, it is estimated that the transaction costs of export trade are still high and these are as much as 8 – 10 per cent for major exports such as textiles and pharmaceuticals. India's total exports for the year 2000-2001 were Rs.203571 crores. With the proposed reforms, it is estimated that the reduction in the transaction costs could be as much as 50 percent. This means that the potential gains to the economy from the reforms would be Rs.4000-5000 crores per annum i.e., this large benefit would accrue to the economy every year. In fact, there would be additional gains accruing from growth in exports, as our exports will become even more competitive. IT-based simplification of the tax system and procedures would lead to greater compliance leading to higher revenues and increased tax to GDP ratio as experienced in other countries and thus helping the fiscal consolidation. An attractive aspect is that these beneficial effects can be appropriated in a relatively short period of time of next two to three years.

As mandated, the Task Force have prepared the Consultation Paper which details its recommendations, along with the rationale, in all important areas of customs and central excise tax administration. Issues relating to VAT and service tax are currently attracting great interest and were deliberated upon by the Task Force. The Task Force took note of the fact that these issues are being discussed by a High Level Committee of the State Finance Ministers appointed by the Union Finance Minister. Hence, in this paper, the Task Force have focused only on important principles that need to be taken into account, particularly related to VAT. In the follow up report, the Task Force would discuss issues related to service tax.

The Task Force is presenting this Consultation Paper to the Government with a request that the paper be released in the public domain, including the Ministry's website so that these recommendations are reviewed by the trade and industry who can send their reactions. The feedback so received would be invaluable for finalizing the report of the Task Force.

We hope that this Consultation Paper as well as the subsequent report of the Task Force would provide inputs for the Budget 2003-2004.

The Task Force is grateful for the help rendered by Shri S. Mukhopadhyay, former Member, CBEC, Dr. M. Govinda Rao, Director, Institute of Social and Economic Change, Bangalore, Shri Anupam Dasgupta, Additional Secretary, Department of Revenue and Shri T.R. Rustagi, Chief Commissioner, CBEC in its deliberations. The Task Force also thanks all other organizations, associations and individuals who assisted in its work. The Task Force would like to especially thank ASSOCHAM, Delhi, CII, Delhi, PHDCCI, Delhi and Bombay Chamber of Commerce and Industry, Mumbai for their support.

Finally, the Task Force would like to express our gratitude to Chairman & Members of the Central Board of Excise and Customs and officers of the Department of Revenue for their full support and cooperation.

(**Vijay L. Kelkar**)
Chairman of the Task Force on Indirect Taxes

New Delhi,
25th October, 2002

EXECUTIVE SUMMARY OF RECOMMENDATIONS

1. MACRO-PERSPECTIVE AND APPROACH TO REFORMS

Our economy is at a critical juncture in its efforts to accelerate growth and employment in order to rapidly reduce poverty. Towards this, one of the key components of the strategy will have to be to exploit the opportunities afforded by more rapid globalization. While our economy has succeeded in maintaining one of the highest GDP growth rates in the world in the last decade with very low inflation, there are several areas where immediate improvements are required to sustain the growth momentum. The two principal concerns are the deteriorating public finances, with the consolidated public sector deficit estimated to be over 11 percent of GDP, and relatively weak performance of exports and FDI, the two pillars of trade and financial sector integration.

The most direct way to raise tax to GDP ratio is to remove most of the plethora of exemptions granted on import and excise taxes for a variety of reasons, mostly for non economic considerations; widen the net by expanding the service tax base; and to improve taxpayers compliance. To boost exports and FDI, the government must sharply reduce the transaction costs associated with trade and doing business with India. Apart from maintaining a realistic market-driven exchange rate, and liberalization of imports, this will involve changes in policies and procedures involving improvements in trade logistics to allow exporters to compete in today's time-dependent markets. This will require a change in mindset away from controls rigidly administered, towards a more liberal policy environment in line with international standards. Trade facilitation revolves around the reduction of all the transaction costs associated with the enforcement of legislation, regulation, and administration of trade policies. Reducing transaction costs and costs of doing business is important not only for boosting exports and FDI but even for creating an appropriate framework for vibrant domestic business.

With the proposed reforms, it is estimated that the reduction in the transaction costs could be as much as 50% , the potential gains to the economy would be Rs. 4000-5000 crores per annum i.e. this large benefit would accrue to the economy every year. In a dynamic sense, in terms of exports foregone on account of high transaction costs, the reduction in costs will be several times higher. Reducing transaction costs and costs of doing business is important not only for boosting exports and FDI but even for creating an appropriate framework for vibrant domestic business.

2. REVENUE AUGMENTATION, TAX LEVIES AND RATES

2.1 Tax to GDP Ratio

It is but evident that there is an urgent need to arrest the trend of falling indirect tax to GDP ratio if an impact is to be made on the fiscal deficit. Broadly, this calls for action in two areas of tax policy. First is the tax structure and second is tax implementation. Widening the tax base by reviewing and removing to the extent possible the duty exemptions; reducing the types of tax levies and the number of duty rates; expanding coverage of Service Tax and integration of Central Excise (goods) and Service Tax legislation; and implementing VAT are some of the measures.

2.2 Customs Tariff and Exemptions

As a policy, multiplicity of levies must be reduced. Accordingly, it is recommended that there should be only three types of duties, viz. Basic Customs Duty, Additional Duty of Customs (or Countervailing duty) and Anti-dumping/Safeguard duties. All other duties should be removed. However, removal of SAD should be linked to implementation of State level VAT.

[Chapter 2 : Paragraph 2.1.2]

The following road map for the future is recommended in respect of customs duties so that there is no uncertainty in the minds of the investors and industry.

(i) 0% - for items like life-saving drugs, Government imports for defense, security and atomic energy, imports for Reserve Bank of India.

(ii) 10% - for raw materials, inputs and intermediate goods.

(iii) 20% - for final goods.

(iv) Higher duty rate upto 150% for specified agriculture produce and demerit goods.

Having regard to our commitment to reform, it is recommended that for no item should the present duty rate be increased, unless the item is charged to nil duty, in which case a minimum duty of 5% can be imposed.

[Chapter 2 : Paragraph 2.2.5]

The recommended rates, as above, are to be achieved by 2004-05. As a general policy, the downward revision of duty rates should be in stages of (–) 5% each year. However, it is quite possible that Government chooses to move to the identified rate at a faster pace.

[Chapter 2 : Paragraph 2.2.6]

It is recommended that the grant or continuance of exemptions must be judged against the following criterion :

(i) As a policy, all exemptions must be removed except in case of :

(a) Life-saving goods.

(b) Goods of security and strategic interest.

(c) Goods for relief and charitable purposes.

(d) International obligations.

(ii) As a general policy, when exemptions are removed but the relief is justified, the targeted beneficiary may be assisted by upfront transparent budgetary support. Such method would ensure public debate and there would be no misuse of the exemption.

(iii) In case an exemption is justified, it should not be end-use based conditional exemption. However, in the event the end-use condition cannot be avoided, the confirmation of end-use should be done on the basis of selective post- clearance checks by using Risk Assessment techniques. It should <u>not</u> be based upon the Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 1996 as the implication in terms of registration with central excise, execution of bond etc. increases contact points and the cost of compliance.

(iv) As a general policy, there should be no exemption from Countervailing duty (CVD), which is at par with the duty paid by the domestic manufacturers of similar goods, including in cases where the exemption from basic customs duty is merited. An exemption from CVD places domestic industry (including potential industry) at disadvantage and serves to deter domestic investment in these areas, which is not desirable.

(v) Best international practices should be one criteria for determining the requirement of otherwise of an exemption.

[Chapter 2 : Paragraph 2.4.7]

As a policy there should be a move away from specific rates towards ad-valorem rates.

[Chapter 2 : Paragraph 2.5.1]

In the light of the above recommendations, the suggested customs duty structure on imports is given in Annexure 'A'.

2.3 Central Excise Tariff and Exemptions

It is recommended that as a policy, we should review all levies and have only one levy, i.e. the Cenvat.

[Chapter 2 : Paragraph 3.1.3]

It is recommended that till such time as there are multiple levies, there should be a schedule indicating the total tax payable on a particular product and the system should internally segregate the same into the respective levies.

[Chapter 2 : Paragraph 3.1.5]

It is recommended that the central excise duty rates should be as follows :

(i) 0% would be for life-saving drugs, security related items and the like.

(ii) 8% would be for food products.

(iii) 16% would be for all items.

(iv) Separate rates for agriculture products.

(v) Separate rates for tobacco and tobacco related products.

[Chapter 2 : Paragraph 3.2.2]

It is recommended that the road map of duty rates should lead towards the identified duty rate (for the product) through a mechanism of (+) or (-) 4% each year, depending upon its current rate of duty.

[Chapter 2 : Paragraph 3.2.4]

2.4 Duty structure for Petroleum sector

The road map for duty structure on petroleum has to be kept distinct from that of other products and the following recommendation is made :

(i) A 5% Basic Customs duty differential between crude and its products.

(ii) Year 0 (2003-04) : Basic Customs duty - on crude - 10%
- on other products - 15%.

(iii) Central Excise duty : 16%

[Chapter 2 : Paragraph 3.3.3]

2.5 Duty structure for Textile sector

It is recommended that as a general policy the textile sector should be subjected to the standard rates of duty. In view of the commitments already made, the 12% rate may, however, continue till February 2005. The deemed credit facility should be withdrawn forthwith.

[Chapter 2 : Paragraph 3.4.3]

2.6 Central Excise duty exemptions

The grant of exemptions on the central excise side needs careful consideration. Instead of exemptions we should move to a budgetary mechanism for giving the same relief.

[Chapter 2 : Paragraphs 3.5.3, 3.5.5]

The view regarding the Small Scale Sector duty exemption is that the present procedures do not encourage participation and confidence building. Accordingly, there is a need for confidence building measures, which may take some time. In this background, the following recommendations are made as regards the duty exemption :

(i) It should be extended to only small units with a turnover of Rs.50 lakhs - This would ensure the really small scale units being run mostly with family labour and having low capital investment get the desired support. It will exempt those units whose compliance cost will be significantly high relative to their tax obligations.

(ii) The exemption limit for the larger SSI units should be gradually brought down to Rs. 50 lakhs. The gradual downward revision of the limit would give industry time to adjust. The time frame is suggested, as follows :

Year 0 (2004-05) – From Rs. 100 lakhs to Rs. 75 lakhs.

Year 1 (2005-06) – From Rs. 75 lakhs to Rs. 50 lakhs.

However, on reduction of the exemption limit, the unit would have the option of payment of duty at 4% (without Cenvat) on the value of clearance upto Rs. 1 crore. The other option available at present of paying duty at a certain percentage of the normal rate would continue.

It is important to note that the downward revision in exemption is proposed to be complemented by a transparent and hassle free tax collection mechanism, which must be in place from April 2004; the exemption should be based upon total turnover including the value of exempted goods but excluding the value of exports. Further, it should not subsidise consumption of luxury items by the affluent. Lastly, with effect 1st April 2003, a Declaration should be filed by the unit when value of its clearances touches Rs.50 lakhs.

[Chapter 2 : Paragraph 3.6.5]

The Small Scale Sector duty exemption should be extended to Matches making the duty structure ad-valorem accompanied by extension of the Cenvat scheme.

[Chapter 2 : Paragraph 3.7.4]

There is a need to review the policy of granting exemption based upon location.

[Chapter 2 : Paragraph 3.9.2]

In the light of the above recommendations, the suggested central excise duty structure is given in Annexure 'B'.

2.7 Relevant date for Notification

It should be provided that a notification comes into force from the day after the day of its issue.

[Chapter 2 : Paragraph 4.3]

2.8 Zero rating exports

From 1st April 2003 exports should be Zero rated.

[Chapter 2 : Paragraph 5.3]

3. CUSTOMS PROCEDURES AND TRADE FACILITATION : BASIC REFORMS

The role of customs is both of a facilitator and a regulator. Whereas it must facilitate the honest importer and exporter it has also to ensure the laws of the country are applied strictly. Therefore, there has to be a very fine balancing. Taking into account all factors it is the view that the bottom line in regard to customs procedures is that these must be based upon trust, which presupposes absence of selectivity. Modern best practice calls for a systems approach that relies on self-compliance (through the maintenance of business records by tax payers), risk analysis and management (development of profiles of risky transactions), and supported by periodic post audits of records. This approach reduces delays for legitimate transactions while allowing full scrutiny of high-risk transactions. In this background, systemic changes are recommended.

3.1 Trust Based System (TBS) : Universal Green Channel

Customs clearance procedures should be based upon trust and be uniformly applied to all importers and exporters and all goods.

EDI network should be expanded to all ports/airports and should include all processes in the automation programme by 1st January 2004. In this direction, one major port and one airport should be made fully EDI operational by 1st April 2003.

The verification of declaration through pre-clearances examination, where necessary, should be based upon Risk Assessment techniques and Post Clearance Audit.

A system of self-assessment of Bill of Entry by the importer should be introduced.

Filing of a period Bill of Entry to be allowed.

Release of imported goods should be allowed on minimum documentation for certain importers of good track record of compliance.

Enhanced Systems Appraisal should be progressively extended and compliance would be ensured through Risk Management techniques.

Release of goods should be allowed in offence cases provided the goods are not liable to absolute confiscation.

Issue of amendments to Bill of Entry should be allowed settled at the service centre itself.

On-line filing of electronic declarations on internet etc. should be encouraged.

The custodians (IAAI/Port Trust Authorities etc.) should encourage establishment of warehouses by shipping airlines/airlines/couriers/ freight forwarders and consolidators within the port/airport for reducing dwell time; it should be provided that a complete Import General Manifest (IGM) with house level details is filed with the Customs before the arrival of the vessel/ aircraft; the carrier/ steamer agents should file the IGM at Master level and the consol/ forwarding/ break-bulk agents should file the House level details; and the carrier/ steamer agents shall alone be responsible for correct and proper filing of complete IGM (including House level details) with the Customs.

A High–level Inter-Ministerial Committee may be set up under the Chairmanship of Chairman, CBEC to resolve inter-agency issues to ensure clearance of import and export goods with reference to international norms. Also a Permanent Trade Facilitation Committee should be constituted at each Port/airport/ICD/CFS comprising senior representatives of all agencies including Custom House Agents (CHAs) under the chairmanship of the Commissioner of Customs.

Customs should lay down a time limit in the law within which an import or an export document shall be processed.

Customs should rely increasingly upon Pre-shipment inspections such as in case of food stuff.

[Chapter 3 : Paragraph 2]

3.2 Other measures for improved customs administration

Customs officers should be made available round the clock for clearance of export jewellery on holidays. Likewise some arrangement should be made to collect cess, where applicable, on holidays so that exports are not held up. This arrangement could be made at the International airports.

The Intelligence, Investigation and Audit Sections of the Custom House may be strengthened.

Merchant overtime fees to be removed for all activities done in Customs area.

Export valuation rules should be framed.

Customs should allow abandonment of warehoused goods.

Customs duty payment may be through cheques.

The scope of confiscation provisions in respect of export goods should be expanded to include non-dutiable goods as well as goods not covered under Drawback scheme.

It should be provided that Export Obligation Discharge Certificate issued by DGFT is accepted by customs without delay.

Customs officers may be empowered to enforce IPR by a suitable amendment to the Trade and Merchandise Marks Act and the Copyrights Act.

[Chapter 3 : Paragraph 3]

3.3 Custom House Agents (CHAs)

CHAs should be licensed through an All India entrance examination to be conducted by Directorate General of Inspection. C.B.E.C. once a year at Delhi and at its Zonal Units for licensing of CHAs.

CHAs once licensed should be allowed to operate at any Custom House/Port/Inland Container Depot anywhere in the country.

Once a CHA licence is issued it should be valid for all time unless the CHA comes to adverse notice of Customs on account of misconduct, delay, etc. for which penal provisions, including suspension/revocation of Licence may be applicable.

Rates for CHA work should be determined by market forces, which will induce a healthy competition amongst CHAs resulting in competitive rates and better service and accountability towards the clients.

There should be a review of the technical qualifications of the CHAs to include knowledge of computer, Prevention of Corruption Act, etc.

[Chapter 3 : Paragraph 4.1]

4. CENTRAL EXCISE PROCEDURAL SIMPLIFICATION

Being the single largest contributor to the tax revenues of the Government, central excise revenues and administration have a critical role in the Indian economy. Naturally, any set back or slow down in central excise revenue mobilization adversely impacts economic planning. Therefore, it is important to devise a suitable tax administration which facilitates voluntary compliance by the tax payer and leads to the collection of revenue at minimum cost. The steps taken so far have not materially altered the general perception that the central excise administration is not tax payer friendly and the systems and procedures are even now far too complex. Therefore, much more need to be done. Importantly, to make a visible impact it is necessary to make fundamental changes without further loss of time. Accordingly, the recommendations are aimed at comprehensively changing the essence of central excise administration with the twin objective of tax payer facilitation and encouraging compliance for increased revenue.

4.1 **Manufacture**

Through immediate suitable legislative changes, the levy of central excise should be progressively based upon value addition. Since concept of value addition would apply only to the processing stage (of manufactured goods) it would be ensured that the area of Sales Tax is not entered into and possibility of double taxation is avoided.

[Chapter 4 : Paragraph 2.1.5]

The provision relating to powers to notify act of manufacture should not be used routinely. Moreover, a suitable amendment is necessary so that it is applied prospectively.

[Chapter 4 : Paragraph 2.2.3]

It should be provided that wherever MRP based levy, is applied the act of repacking into retail containers or affixation of MRP on any goods covered under Section 4A is deemed to be amounting to manufacture.

[Chapter 4 : Paragraph 2.3.2]

4.2 **ASSESSMENT**

The officers should be made responsible for assessments of ER 1 returns and for this purpose clear cut instructions should be issued. Some monetary limit may be fixed for confirmation of assessment by each level of Central Excise officer upto Additional Commissioner.

[Chapter 4 : Paragraph 3.1.4]

4.3 **Valuation**

Guidelines on determination of cost of production should be issued at the earliest, and till such time all disputes be kept pending.

[Chapter 4 : Paragraph 3.3.3]

The present stipulation of valuing at 115% of cost of production when the goods are removed to sister units should be brought down to 105%. Moreover, there should be a moratorium on this figure, so that there is certainty in taxation.

[Chapter 4 : Paragraph 3.4.2]

System of MRP based valuation must be expanded. However, in order to improve the usage of this mechanism of assessment, certain issues relating to the method of determining the abatement and secondly its nexus with the SWMA require resolution.

[Chapter 4 : Paragraph 3.5.2]

A 'Permanent Committee on MRP Abatement' should be formed under Member (Budget), C.B.E.C., which should include representatives of all Chambers of Trade and Industry Associations, to meet on annual basis (or more often, if required) to recommend the extent of abatement for the items brought under MRP. It should be formed immediately so that its recommendations can be taken note of for the Budget 2003-04.

[Chapter 4 : Paragraph 3.6.4]

Section 4A of the Central Excise Act may be amended to delete reference to the Standards of Weights and Measures Act, 1976. At the same time, the Central Government should internally refer to this Act, while specifying the items for valuation based on retail sale price. Further, the Notification may itself indicate the conditions under which it shall not apply to a particular item even though specified.

[Chapter 4 : Paragraph 3.7.3]

4.4 Cenvat

The Cenvat Credit Rules, 2002 should be amended to abolish the distinction between capital goods and inputs and allow credit on all inputs brought into the factory except for those figuring in a small negative list, such as office furniture, motor vehicles, MS, HSD, etc.

[Chapter 4 : Paragraph 4.1.4]

The Cenvat Credit Rules, 2002 should be amended to allow full credit of the duty paid on the capital goods immediately on receipt, as in the case of inputs.

[Chapter 4 : Paragraph 4.2.3]

Suitable provision should allow Deputy/ Assistant Commissioner to condone technical lapses/ infirmities while allowing Cenvat credit.

[Chapter 4 : Paragraph 4.3.2]

An explanation may be inserted in rule 16 to the effect that the amount paid on removal of returned goods can be taken as Cenvat credit in the hands of the recipients.

[Chapter 4 : Paragraph 4.4.2]

A specific provision may be introduced to charge duty on the dismantled capital goods when removed from the factory.

[Chapter 4 : Paragraph 4.5.2]

Cenvat credit should not be allowed on deemed credit basis.

[Chapter 4 : Paragraph 4.6.3]

Rule 12 of the Cenvat Credit Rules, 2002 should be amended to provide for recovery of Cenvat credit erroneously refunded.

[Chapter 4 : Paragraph 4.7.3]

Cenvat inputs maybe allowed to be stored outside the factory in an identified place of storage subject to procedural safeguards for due accountal of the inputs.

[Chapter 4 : Paragraph 4.8.2]

4.5 Exports

FACILITY OF SELF SEALING OF EXPORT GOODS (BY MANUFACTURER) SHOULD BE GRANTED AS A MATTER OF RIGHT.

[Chapter 4 : Paragraph 5.1.3]

The work of grant of rebate should be centralized at the Custom House itself. In the alternative, an EDI link can be provided between the Customs House and the Maritime Commissioner.

[Chapter 4 : Paragraph 5.2.3]

In order to reduce contact points and speed up the disbursal of the rebate/refund the same should be directly credited to the tax payer's own bank account.

[Chapter 4 : Paragraph 5.3.2]

4.6 Manner of payment of duty

Fortnightly payment of duty may be replaced by monthly payment.

[Chapter 4 : Paragraph 6.1.2]

The date of payment of central excise duty may be prescribed as the date of presentation of the cheque to the Bank subject to its realization.

[Chapter 4 : Paragraph 6.2.2]

In case of default in payment of duty :

(i) The provision of withdrawing the facility of payment of duty in installments in case of default should be withdrawn.

(ii) There should be automatic charge of interest and penalty in the event duty is not paid on time.

(iii) In the event it is decided to retain the provision of withdrawing the facility the assessee should be allowed to pay duty during this period through Cenvat credit.

[Chapter 4 : Paragraph 6.3.5]

4.7 Budget Day restrictions

The Budget Day restrictions are out of tune in present day world and should be removed.

[Chapter 4 : Paragraph 7.3]

4.8 Removal of goods for job-work

There should be a provision for allowing the movement of dutiable goods without payment of duty to job worker even in situations when the principal manufacturer is not working under Cenvat Scheme.

[Chapter 4 : Paragraph 8.2]

4.9 Collection of information from tax payer

Fortnightly statement of revenue paid, which is presently being collected from tax payers, may be discontinued. Further, as a policy, no information should normally be asked for (from departmental officers or industry) unless it is being obtained in the prescribed returns from the tax payer.

[Chapter 4 : Paragraph 9.2]

4.10 Dispute resolution

Scope of Section 11A(2)(B), i.e. non-issue of SCN should be expanded to include cases of non-payment detected by Audit/ Department.

[Chapter 4 : Paragraph 10.3]

In respect of cases involving fraud, suppression etc. Section 11A should be amended to provide for the issue of a Show Cause Notice which automatically collapses if the tax payer voluntarily pays the duty and interest and 25% penalty within a period of 30 days of the issue of the notice. In such cases, the Notice should also mention in its preamble that there would be no prosecution proceedings. The provision regarding collapse of the Show Cause Notice should apply to 'other' cases but without the requirement of payment of 25% penalty.

[Chapter 4 : Paragraph 10.3]

4.11 Filing of Returns

Date of filing return may be shifted to the 15th of the close of the month/ quarter, as the case may be, for all tax payers i.e. including those in the SSI sector. However, the large units would furnish on-line or otherwise, by the 6th of each month, the information of total duty paid.

As a first step towards on-line filing of returns, the monthly/ quarterly submission of TR6 challans may be discontinued and steps should be taken to eventually allow on-line filing of returns. The details of TR 6 Challans will be mentioned in the returns.

[Chapter 4 : Paragraph 11.3]

4.12 Voluntary filing of documents by tax payers

IT IS RECOMMENDED THAT IT MUST BE MADE BINDING ON THE FIELD OFFICIALS TO ACCEPT SUCH DOCUMENTS AND GIVE AN ACKNOWLEDGEMENT IN WRITING, IF NEEDED, IN ORDER TO SAFEGUARD TAX PAYERS INTEREST.

[Chapter 4 : Paragraph 12.3]

4.13 Visits of CAG staff

It is recommended that Rule 22(3) of the Central Excise Rules, 2002 may be amended to exclude reference to audit party deputed by the Comptroller and Auditor General of India. The implication is that CAG audit would not visit the tax payers for conduct of audit.

[Chapter 4 : Paragraph 13.3]

4.14 Arrest

The arrest in central excise cases, if warranted, should be made with the sanction of a Magistrate. This would require suitable amendment to the Central Excise Act, 1944.

[Chapter 4 : Paragraph 14.3]

4.15 Tax Clinics for Small Scale Sector Manufacturers

It is recommended that by 1st April 2003 each Central Excise Commissionerate should establish one Tax Clinic for the Small Scale Sector, under the charge of a Superintendent and overall supervision of Deputy/Assistant Commissioner to guide the Small Scale manufacturers. This Cell should closely coordinate with the Small Scale Manufacturers Associations.

[Chapter 4 : Paragraph 15.2]

5. EXPORT PROMOTION

Export is of paramount importance and at any point of time we have had more than one scheme to facilitate and encourage exports. As a result, exports have gone up but the pace has not been satisfactory. Moreover, the critical test of a scheme is whether it has led to genuine exports or not. It is the view that a viable export strategy must rest upon two basic premises. Firstly, to be competitive in the international market, the export product must match, if not better, the competition in terms of pricing and quality. Secondly, the exporter must have an incentive to enter the highly uncertain export market.

5.1 Viable export strategy

Multiplicity of export promotion schemes through taxes should be done away with. The new export strategy should rest basically upon two schemes :

(i) SEZ and EOU schemes – This is for the units dedicated to exports – here tax relief should be available for all goods (capital goods, raw materials etc.).

(ii) Other schemes – Here, the relevant schemes may be two, one focusing on capital goods and other on raw materials, inputs etc. The relief from tax may be provided in two ways :

(a) Exemption from duties subject to post-clearance intelligence and audit-based verification checks.

(b) Refund of duties paid through Drawback route.

[Chapter 5 : Paragraph 2.2]

Drawback is WTO compliant and is therefore recommended as the preferred scheme.

[Chapter 5 : Paragraph 2.4]

5.2 EOU/EPZ schemes

The C.B.E.C. must immediately work upon consolidating the many notifications, on both customs and central excise side. This may be done by 1st June 2003.

[Chapter 5 : Paragraph 3.2.2]

Sale in the domestic market should get progressively reduced for the EOU/EPZ units, as follows :

(i) Year 0 (2003-2004) – From 50 % to 30%

(ii) Year 1 (2004-2005) – From 30 % to 15%

(iii) Year 2 (2005-2006) – From 15 % to 10%

[Chapter 5 : Paragraph 3.3.3]

The duty for DTA removals may be at 75% of the customs duty or the excise duty, whichever is higher. In the event the unit is based on use of indigenous raw material, the duty rate may be kept at 50% of the customs duty.

[Chapter 5 : Paragraph 3.3.7]

5.3 Drawback Scheme

There should be an immediate software modification such that amount of drawback blocked should not at any one point of time exceed the amount under dispute.

[Chapter 5 : Paragraph 4.3.2]

The customs may accept Bank Realisation Certificates as a proof of realisation, which may be produced by the exporters themselves.

[Chapter 5 : Paragraph 4.4.2]

The Shipping Bill number should be standardized to include the details of the port/airport of export. There should also be electronic exchange of information between the RBI and the Custom House.

[Chapter 5 : Paragraph 4.5.3]

In the case of Composite items, the weight declared by the exporters should be accepted. Verification should be done only in case of doubt or there is intelligence to the contrary.

[Chapter 5 : Paragraph 4.6.2]

In case of exports through Inland Container Depot/Container Freight Station (ICD/CFS), the Drawback should be released once the 'Let Export' order is given by the customs for export and the goods are out of control of the exporter for transport to the gateway port/airport.

[Chapter 5 : Paragraph 4.7]3

After issuance of Brand Rate (including Special Brand Rate) letter, a copy should be forwarded to Customs EDI system for data feeding. The amount of Drawback should automatically be credited in the exporter's bank account as in case of All Industry Rate claims.

[Chapter 5 : Paragraph 4.8.2]

At the option of the exporter, C.B.E.C. should adopt the Income Tax system of payment of refund for the disbursal of Drawback, i.e. the designated bank would be authorized to send a mail transfer of the Drawback amount direct to the tax payer's bank account, wherever located.

[Chapter 5 : Paragraph 4.9.3]

Customs should accept self- declaration from the Merchant Exporters that their supporting manufacturers are not registered with Central Excise and they do not avail Cenvat benefit. Similar self-declaration should be accepted from manufacturer-exporters. Such claims may be subjected to post disbursal verification on basis of intelligence and risk assessment techniques. It is also recommended that the Drawback rates should be determined net of the Cenvat credit which would obviate the necessity of any verification regarding Cenvat availment.

[Chapter 5 : Paragraphs 4.10.3, 4.10.4]

Deputy/Assistant Commissioner (Exports) may sanction Drawback instead of Deputy/Assistant Commissioner (Drawback), as at present.

[Chapter 5 : Paragraph 4.11.2]

The Government may declare Drawback rates for all the items for which Standard Input-Output Norms (SION) are prescribed.

[Chapter 5 : Paragraph 4.12.2]

C.B.E.C. should review the Drawback schedule and attempt to create broad categories so that complexities are reduced.

[Chapter 5 : Paragraph 4.13.2]

The Drawback Rules should be modified to provide for an appeal to CEGAT in case an exporter is dissatisfied with the Brand Rate or Special Brand Rate of Drawback fixed for him.

[Chapter 5 : Paragraph 4.14.2]

In case, the sanction of Drawback is delayed beyond a period of one week of the receipt of complete documents, the department should be liable to pay interest on the amount of Drawback.

[Chapter 5 : Paragraph 4.15.2]

5.4 Duty Entitlement Pass Book (DEPB) scheme

In view of its many implementation problems, DEPB must be removed from 1st April 2003 as an efficient system of Drawback would be in place by then.

[Chapter 5 : Paragraph 5.1]

5.5 Coordination between DGFT and Customs

To resolve the issue of absence of coordination between the DGFT and Customs, the following steps may be taken :

(i) Duty exemptions, which are in general a critical component of the export promotion schemes, should be notified along with the Policy announcement.

(ii) Both Customs and DGFT should make use of EDI technology for exchange of information, which would cut the delays.

(iii) There should be an institutional arrangement to resolve the co-ordination problems between the DGFT and Customs. The recommended structure is as follows :

(a) **'Export and Import Co-ordination Committee' co-chaired by Member (Customs), C.B.E.C. and DGFT and having as its members J.S. (Customs), C.B.E.C., Additional DGFT, Director (Customs), C.B.E.C., Joint DGFT, and members of Exporters', Importers' and CHA Associations. The Committee would meet once in a quarter to examine and resolve all co-ordination issues. It would also oversee the work of the Regional Export and Import Co-ordination Committees.**

(b) **'Regional Export and Import Co-ordination Committee' at each of the ports/airports/ICDs/CFS. This Committee would be chaired by Chief Commissioner of Customs. Senior most member of the DGFT at the port/airport/ICD/CFS would be a member. The Committee would also include all concerned departments and agencies such as custodians, banks, etc. and members of Exporters', Importers' and CHA Associations. The Committee would meet once in a quarter to resolve all co-ordination problems.**

[Chapter 5 : Paragraph 6.4]

(c) **These Committees should be notified in the EXIM Policy and by a C.B.E.C. Circular.**

[Chapter 5 : Paragraph 6.5]

6. AUTOMATION OF INDIRECT TAX ADMINISTRATION

It is clear that the success of an efficient tax administration rests upon making full use of the potential of automation and related technologies. The bottom line is that change shall, and indeed must, be automation driven. The major benefit of an automation programme is experienced in the area of trade facilitation. Automation leads to quicker clearances, standardization of procedures, reduced discretion, less interface and faster decision making, all of which greatly benefit the trade and industry. At the same time, compliance issues are not neglected and, in fact, there is far greater control, though unobtrusive, which is desirable. However, a successful automation programme rests upon committed administrative support backed by significant financial investment.

6.1 Automation driven tax administration

All Customs and Central Excise Commissionerates should fully automate their processes by January 2004. This requires a Commissionerate-wise work programme to identify the requirement of each station in terms of resources required.

EDI must be expanded to cover each Customs and Central Excise Commissionerate by January 2004 for on-line processing of returns and applications (for e.g. refund), risk analysis, profiling and management, message exchange with related agencies, etc. In this direction, one major port and one airport should be made fully EDI operational by 1st April 2003.

C.B.E.C. and its Directorates should be included in the automation programme. All processes should be automated by January 2004.

Facility of video conferencing between the C.B.E.C. and the Chief Commissioners should be created.

Research capabilities in TRU should be enhanced by intensive automation and development of new software tools, particularly in the context of emerging challenges once VAT is introduced and integration of Service Tax and Central Excise take place.

On-line filing of returns and documents should be encouraged. For this, Service Centers may be established with a computer link to the Customs and Central Excise Commissionerates for providing the facility. In order to improve the data accuracy and timely capture of data, entry of the particulars by the assessees through a web-based application at their own premise or at Service Center should be allowed.

Telephone help-line system should be made available in all Custom Houses and Central Excise Commissionerates for providing information support to trade in respect of status of pending documents/claims and other information on procedures etc. In the long run this should become a centrally operated facility.

Implementation of the automation programme in a time bound manner requires four dedicated teams to oversee the timely implementation of this work, one for Customs, other for Central Excise, the third for Service Tax, and the last for automation of C.B.E.C. and its Directorates. These should be created in the Systems Directorate and lay down the road map for automation including resource requirement.

Sufficient resources must be made available at one go to the C.B.E.C. for the automation project. This step will obviate the necessity of taking sanctions and seeking release of funds each time. Importantly, the resources should include an element for an 'Upgradation Fund' for the timely upgradation of the hardware and software on regular basis.

To the extent possible, the automation work should be out-sourced as it is not within the core competence of the department. On the other hand, India is a leader in software and full use must be made of the local available expertise.

Senior officers of the Department must take an active interest in computerization by using computers and relying upon the information generated. They should also ensure its use by others. In short, there has to be better ownership at senior levels.

Systems wing of C.B.E.C. should be strengthened (in terms of both manpower and resources) to ensure immediate dissemination of information through an updated website.

Simplification, standardization and stability of law and procedures are essential prerequisites of a successful automation programme.

Providing lead-time for software changes when laws are changed is essential for successful automation. For example, a notification must not come into force immediately from the date of its issue but from the next day. Similarly, new procedures should be implemented after a time gap of at least 30 days.

All procedures must be devised in consultations with the systems personnel who can advise on their adaptability to computerization.

Multiple levies create complexities in development of software and retrieval of data. Accordingly, there must be an attempt to reduce the number of levies. Similar is the case in respect of multiple rates of duties. By and large an item should be subject to one duty rate.

Levies and exemptions must be aligned to tariff headings. At present levies and exemptions are, at times, announced with reference to the description of the goods. Since the descriptions are not standardized, it creates difficulty in automation.

Automated processes should provide for bifurcation of total duty paid into individual heads. In other words, for each Tariff Heading read with the exemption notification, there should be one duty amount to be deposited by the importer. Once deposited, the system should do the further allocation of this amount under the respective duty heads. Presently this work is done by the tax payer.

[Chapter 6 : Paragraph 2.2]

7. *IMPROVING INDIRECT TAX ADMINISTRATION*

7.1 Indirect Tax Ombudsman

An Indirect Tax Ombudsman may be appointed at Delhi, Mumbai, Chennai and Kolkata by 1st April 2003.

[Chapter 7 : Paragraph 1.3]

7.2 Directorate of Anti-dumping and Safeguards duties

An independent body, with separate Budget, consisting of respected professionals including revenue officials should be established to carry out investigations relating to Safeguard duties and Anti-dumping. In the alternative, this work may be assigned to the Tariff Commission.

[Chapter 7 : Paragraph 2.4]

7.3 Adjudication and Appeal

Without changing the present categorization of cases for purposes of adjudication by the different levels of officers, the adjudication should be done by a bench of two officers of the same level. In case of conflicting views, the Chief Commissioner/ Commissioner as the case may be would be empowered to appoint a third officer so that a decision is passed by majority.

[Chapter 7 : Paragraph 3.1.3]

No pre-deposit of duty should be taken at the first stage of appeal, i.e. at the level of Commissioner (Appeals).

[Chapter 7 : Paragraph 3.2.3]

It is recommended that in order to restore the confidence of the tax payers, Section 11A of the Central Excise Act, 1944 and Section 28 of the Customs Act, 1962 should be amended to restore the earlier position of issue of Show Cause Notice for demand of duty by an officer of the level competent to adjudicate the case.

[Chapter 7 : Paragraph 3.3.3]

The provision relating to disposal of cases by CEGAT should be modified to provide for the finalisation of the case (wherein stay is granted) within a period of six months, so far as it is possible to do so. The provision that the stay is automatically vacated when a case is not finalized in six months should be revoked.

[Chapter 7 : Paragraph 3.4.2]

Suitable measures may be taken to authorize Commissioners of Customs and Central Excise to appoint Special Fee Counsels upto a certain monetary limit. The Chief Commissioners may also be suitably authorized for appointment of Counsels beyond the monetary limit prescribed for Commissioners.

[Chapter 7 : Paragraph 3.5.2]

Departmental representatives should be appointed at the benches of the Settlement Commission. Subsequently, this practice can be replicated in case of Authority for Advance Rulings.

[Chapter 7 : Paragraph 3.6.2]

7.4 Audit related issues

C.B.E.C. should issue instructions that whenever an Audit objection runs counter to its instructions/ circulars, no protective duty demand need be issued. This should, however, be complemented by evolving a mechanism to settle the objection with CAG at the earliest. Further, C.B.E.C. and CAG should identify posts within their organizations to be occupied by the officers of the other department on deputation.

[Chapter 7 : Paragraph 4.1.4]

Internal Audit should be participative and a fact finding mission with the objective of guiding the tax payer. The attempt should be to evolve a consensus on the issues. Audit should not be empowered to issue show cause notices for duty demand.

[Chapter 7 : Paragraph 4.2.2]

7.5 Trade Facilitation

In so far as introduction of new procedures is concerned, the following recommendations are made :

(i) An institutional mechanism, namely Standing Committee on Procedures chaired by Chairman CBEC and including trade and industry representatives, should be established to identify and resolve the problem areas in present procedures and evolve new procedures on a need basis.

(ii) A new procedure should come into force after minimum 30 days of its announcement.

[Chapter 7 : Paragraph 5.1.3]

Revenue targets must be fixed realistically. On the customs side, as an export facilitation measure, the revenue target should be fixed by including Drawback disbursed and refund sanctioned. On the central excise side, the revenue target should take into account duty paid through both Personal Ledger Account (PLA) and Cenvat credit. Refunds sanctioned should also be taken into account. This will ensure against stoppage of payment through Cenvat during revenue drive and withholding of refunds.

[Chapter 7 : Paragraph 5.2.4]

Execution of bonds should be dispensed with. Instead, where necessary, a security in the form of a bank guarantee may be taken.

[Chapter 7 : Paragraph 5.3.3]

The 8-digit Common Commodity Classification Code should be implemented at the earliest and latest by 1st April 2003. This should be used by all other agencies (DGFT, DG, CIS, custodian, etc.) also.

[Chapter 7 : Paragraph 5.4.4]

A time bound programme should be initiated for the ISO Certification of all Custom Houses and Central Excise Commissionerates – to be started in 2003 and completed by 2005. This presupposes standardization of procedures.

[Chapter 7 : Paragraph 5.5.2]

Multi-banking should be encouraged by recognizing new banks including private sector banks to handle receipt of Government revenue; a pre-condition to the appointment of the banks should be establishment of an EDI link with the Custom House/Central Excise Commissionerate to facilitate reconciliation of revenue; banks should have the responsibility of issue/transfer of refund checks/amount direct to the tax payers bank account on the basis of a release advise form the Commissionerate; option of payment of duty through debit card and the like should be explored for implementation; and appointed banks should give the tax payer the option of internet banking for deposit of duty and transfer of funds.

[Chapter 7 : Paragraph 5.6.1]

The interest payable by the tax payer and the department may be made uniform and the law should itself clarify that the interest is simple and not compounded. Further, the rate of interest should be reviewed each year at the time of the Budget and brought in line with the prevailing market rate. Rate determined should not be changed during the year.

[Chapter 7 : Paragraph 5.7.2]

In order to reduce the transaction cost and avoidable interface between the industry and the Department, the provision of unjust enrichment may be amended to the effect that it would not apply when the refund arises in respect of provisional assessment , pre-deposit of duty and goods captively consumed.

[Chapter 7 : Paragraph 5.8.2]

The system of receipt and acknowledgement of dak and correspondence should be reviewed and it should be ensured that a receipt counter manned at all hours during office hours is positioned at an easily accessible place. In the case of small offices where there is a paucity of staff, a Mail box should be provided and acknowledgements issued next day. Every correspondence should be acknowledged and timely replies sent.

[Chapter 7 : Paragraph 5.9.2]

C.B.E.C should codify all circulars/ instructions in one cover, subject-wise by 1st. April 2003.

[Chapter 7 : Paragraph 5.10.2]

PAN should be used as the common identifier in all taxation matters. It is recommended that C.B.E.C should ensure by 1st April 2003 that all its tax payers are entered into its computer record on the basis of PAN.

[Chapter 7 : Paragraph 5.11.2]

Central Excise officers should not be required to wear uniform. This would change the mind set on both side (Department and taxpayer) and contribute to freer communication; Videography should be done whenever statements are recorded and searches made; Presence of counsel should be encouraged while recording

statements; Seizure of documents and records adversely affect the conduct of business. Accordingly, these should be mandatorily released upon the completion of adjudication.

[Chapter 7 : Paragraph 5.12.1]

7.6 C.B.E.C. Administration

Chairman, C.B.E.C. should be selected on criterion of merit cum seniority and once appointed (at whatever age before 60 years) should have a minimum tenure of 2 years.

[Chapter 7 : Paragraph 6.1.3]

In the interest of efficient tax administration and tax payers' facilitation, C.B.E.C. and the Chief Commissioner should be given financial autonomy, and financial powers of the Commissioners may be enhanced.

[Chapter 7 : Paragraph 6.2.2]

C.B.E.C. should evolve a time bound strategy to improve the office accommodation as follows :

(i) A Task Force should be set up to standardize the requirement of a modern customer friendly office (model office) which should furnish its report by 31st December 2002. The report should include financial estimates.

(ii) Based on the report of the Task Force, the C.B.E.C should ask the Chief Commissioners to identify the shortcomings in each of their offices in their jurisdiction by 1st April 2003 and send a consolidated proposal to C.B.E.C.

(iii) By 1st August 2003, a model Commissionerate (Customs and Central Excise), Central Excise Division and Central Excise Range office should be set up in each of the Chief Commissioner zones.

(iv) C.B.E.C. should seek financial sanctions and replicate the model offices by upgrading the existing offices and purchasing land, building, etc., where necessary. The entire exercise should be time bound, so that by 2005, modern offices are in place in each Commissionerate.

(v) Modernisation of C.B.E.C and its Directorates should be done by setting up a Task Force to identify the areas of improvement and thereafter taking time bound action.

(vi) Facility of video conferencing between the C.B.E.C. and the Chief Commissioners should be created.

(vii) Research capabilities in TRU should be enhanced, particularly in the context of emerging challenges once VAT is introduced and there is integration of Service Tax and Central Excise.

[Chapter 7 : Paragraph 6.3.2]

7.7 Human Resource Development and Training

The infrastructure available for training at regional level should be upgraded; training should be accorded priority and sufficient infrastructure needs to be created to impart training especially in areas of use of information technology, managerial

skills and attitude changes at the cutting edge level; each Chief Commissioner of a Zone should have an in-house training center equipped with latest training aids and adequate infrastructure to take care of the training requirements.

The C.B.E.C. should make full use of the technical assistance of multilateral agencies such as World Bank, Asian Development Bank and World Customs Organization, especially their reform and modernization projects and programmes, that support customs reform through training in diagnostic study and in customs needs analysis. These help domestic customs authorities implement the required changes that have been identified and evaluate their impact on trade facilitation and customs compliance.

A relevant UN body to be contacted for assistance is the Center for Facilitation of Procedures and Practices for Administration, Commerce, and Transportation (CEFACT-UN/ECE). Close link should also be maintained with UNCTAD which uses Automated System for Customs Data and Management (ASYCUDA) and Advance Cargo Information System(ACIS).

Group 'B' and 'C' officers who are at the cutting edge should be given training to change the mind-set for bringing about pro-client/customer orientation.

Entry level training to officers who are promoted from Group 'B' to Group 'A' should be mandatorily provided at NACEN, for a minimum period of 3 months covering both Customs & Central Excise. This is essential as officers promoted from Customs are often posted to Excise Commissionerates and vice versa.

Cadre training should be compulsory in respect of all Group 'A' officers and periodical refresher courses should be organized to impart training of managerial skills.

Senior Group 'A' officers of the rank of Commissioners and above should be deputed to attend Executive Development Programmes in premier management institutes in the country such as, IIM, IIFT, ASCI etc.

Group 'A' officers should be exposed to the tax administrations abroad and international best practices in training followed to enhance their skills.

[Chapter 7 : Paragraph 7.2]

8. VALUE ADDED TAX AND SERVICE TAX

The entire matter of implementation of VAT is currently at a crucial stage and a number of initiatives are under examination by the Empowered Committee, which has made significant progress during last one year. Hence, at this juncture it would not be appropriate or desirable for this Task Force to take a final view on the modalities and implementation of VAT. Therefore, only certain preliminary observations are presently being made which are considered relevant for the successful introduction of the proposed scheme of VAT. Likewise, Service sector linkage of Service Tax with VAT is currently under discussion at various forums, including the Empowered Committee and a final view is yet to emerge. it is desirable to allow a consensus to emerge.

8.1 Value Added Tax

The State Governments should announce a time bound action plan for the implementation of VAT by 1st April 2003.

[Chapter 8 : Paragraph 1.2.2]

VAT should be one tax to replace all taxes on goods and services.

[Chapter 8 : Paragraph 1.3.2]

A constitutional guarantee should be in place for the implementation of State VAT.

[Chapter 8 : Paragraph 1.4.2]

An attempt should be made for uniformity of VAT legislations. Further, the States must also agree on uniform rates of taxation and uniform classification based upon HSN.

[Chapter 8 : Paragraph 1.5.2]

It is recommended that issue of compensation, if it arises, must be tackled through mutually acceptable mechanism of additional resource mobilization and not through Budgetary support.

[Chapter 8 : Paragraph 1.6.2]

8.2 Service Tax

Implementation of Service Tax would be facilitated by having a comprehensive tax base. However, it would be in order to identify certain minimum number of services which are not subject to Service Tax. Examples of these services are public utilities, social services (health, education, etc.) and Sovereign services rendered by the State.

The scheme of tax credit should be extended to include all services. In other words, tax credit of services received should be available to a service provider even if the two are not in the same category. At the second stage, the Service Tax credit should be amalgamated into the Cenvat credit scheme on goods. Thus, there should be integration of the Cenvat credit and Service Tax credit schemes.

Service Tax should be implemented as the first electronic tax (E-tax) with self assessment and on-line web based connectivity between the department and the tax payers.

It is necessary to enact a specific legislation to administer Service Tax. Once this is done there would be increased legal clarity and better administration. Eventually, Service Tax legislation and Central Excise legislation must be integrated.

[Chapter 8 : Paragraph 2.2.1]

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CHAPTER 1

MACRO-PERSPECTIVE AND APPROACH TO REFORMS

1. Macro perspective

1.1 Our economy is at a critical juncture in its efforts to accelerate growth and employment in order to rapidly reduce poverty. Towards this, one of the key components of the strategy will have to be to exploit the opportunities afforded by more rapid globalisation. While our economy has succeeded in maintaining one of the highest GDP growth rates in the world in the last decade with very low inflation, there are several areas where immediate improvements are required to sustain the growth momentum. The two principal concerns are the deteriorating public finances, with the consolidated public sector deficit estimated to be over 11 percent of GDP, and relatively weak performance of exports and FDI, the two pillars of trade and financial sector integration. On the fiscal side, while the government needs to focus on expenditure rationalization, a more critical area which needs immediate attention is to raise the declining tax to GDP ratio. On the external front, India's success in integrating into the world economy critically hinges upon raising the share of its exports in world trade closer to it's pre-independence level of over 2 percent from the current level of 0.6 percent, and increasing the inflow of FDI to at least $ 10 billion annually in the current plan period (China receives close to $ 46 billion) from the current dismal level of $ 2 billion.

1.2 The stated objective of the Ministry of Finance and Company Affairs in setting up this Task Force on Indirect Taxes is "to take advantage of information technology and bring the indirect tax systems and procedures at par with the best international practices and thus, encourage compliance and reduce transaction costs". This mandated the review of the extant indirect tax laws and procedures - Customs, Central Excise and Service Tax - with an eye toward removing complexities and facilitating voluntary compliance. The bottom line is to set in place a user friendly and transparent tax administration in tune with the best international practices. The understanding is that such measures would improve voluntary tax compliance and reduce the transaction costs and, thus arrest the trend of falling tax to GDP ratio.

1.3 The most direct way to raise tax to GDP ratio is to remove most of the plethora of exemptions granted on import and excise taxes for a variety of reasons, mostly for non economic considerations; widen the net by expanding the service tax base; and to improve taxpayers compliance. Recent research in tax policy suggests that, in general, indirect tax incentives are very prone to abuse, as qualified purchases can easily be diverted to buyers not intended to receive incentives. Thus they are difficult to justify on policy grounds. Their use should, therefore, be limited to removing import duties on inputs used in the direct production of exports. Granting indirect tax incentives to export-oriented industries is a prevalent practice worldwide. Conceptually, relieving inputs used in the direct production of exports from the burden of indirect taxes is clearly justifiable on the principle of destination-based taxation, and should, in general, be supported. Such measures will also revive growth and stimulate investment, the tax system in general is in conformity with international norm, supported by suitable macroeconomic, structural, legal, and regulatory environments.

1.4 To boost exports and FDI, the government must sharply reduce the transaction costs associated with trade and doing business with India. Apart from maintaining a realistic market-driven exchange rate, and liberalization of imports, this will involve changes in policies and procedures involving improvements in trade logistics to allow exporters to compete in today's time-dependent markets. This will require a change in mindset away from controls rigidly administered, towards a more liberal policy environment in line with international standards. Trade facilitation revolves around the reduction of all the transaction costs associated with the enforcement of legislation, regulation, and administration of trade policies. It involves several agencies such as customs, airport authority, port authority, central bank, trade ministry etc. The main objective is to reduce the cost of doing business for all parties by eliminating unnecessary administrative burdens associated with bringing goods and services across

borders. The means to achieve this objective are the modernization and automation of clearance procedures to established international standards. There is a dire need to streamline trade administration so that exports and imports are cleared in line with international norms. It takes days in major ports/airports to clear goods as against hours in most successful globalized countries. This is a key step to stimulate a rapid export drive and to attract a sizeable FDI. In this context, the Task Force would like to recommend the Government to take a more proactive stance towards trade facilitation in the coming WTO round. The Government is in dire need to streamline trade administration so that exports and imports are cleared in line with international norms. This is a key step to stimulate a rapid export drive and attract a sizeable FDI. A positive stance by India in WTO on trade facilitation would serve two purposes. We could use it to get some concessions from the developed countries who are championing this idea. Secondly, this would improve our international image as a committed reformer.

1.5 It is important to note that once Universal Green Channel and EDI in all major ports/airports are in place, transaction costs will be substantially reduced. This will sharply bring down the anti-export bias in the economy. According to a recent EXIM Bank study (October 2002) - "Transaction cost of Indian exports : an update", transaction cost which has come down in the last four years, continues to be high. For example, dynamic sectors of textile and garments and pharmaceuticals such costs are 10% and 8%, respectively. With the proposed reforms, it is estimated that the reduction in the transaction costs could be as much as 50%, the potential gains to the economy would be Rs.4000-5000 crores per annum i.e. this large benefit would accrue to the economy every year. In a dynamic sense, in terms of exports foregone on account of high transaction costs, the reduction in costs will be several times higher. Reducing transaction costs and costs of doing business is important not only for boosting exports and FDI but even for creating an appropriate framework for vibrant domestic business.

1.6 What ails the indirect tax administration beleaguered by low collections, revenue leakages and high cost of compliance has been the subject matter of intense debate over the years. Whereas recent initiatives are directed at a more transparent and rule bound system, there is an increasing realisation that whatever has been done has neither been sufficient nor effective. As a result, it becomes evident that the present system does not lead to confidence building in the tax payer, which has grave implications such as the falling tax to GDP ratio. Accordingly, it is imperative to go to the root of the problems and arrive at long terms solutions.

2. Approach to reforms

2.1 In this background, as a part of its work programme, the Task Force undertook studies and analysed the different aspects of indirect tax laws and administration. It initiated dialogue with a large number of stakeholders from the trade, industry and department and also examined the best international practices in the critical areas of indirect tax administration. A close look was also had at important reports of Expert Committees and Groups which had examined the indirect tax system in the recent past - The Advisory Group on Tax Policy and Tax Administration for the Tenth plan (Chaired by Shri Parthasarathi Shome), Committee on Review of Central Excise Collection System (Chaired by Shri S. V. Iyer), Expert Group on Taxation of Services (Chaired by Dr. M. Govinda Rao) and Inter-Ministerial Working Group on Customs Tariff (Chaired by Shri Arvind Virmani). All these reports have contributed significantly in shaping the final views of this Task Force.

2.2 The finding was that in the recent past Government has initiated a number of steps to improve the indirect tax administration. To list a few such measures, transaction value concept has been introduced for excise duty assessment; MRP based levy introduced on 92 categories of consumer goods; central excise procedures have been substantially simplified such as dispensation of most pre-clearance requirements, fortnightly payment of duty, introduced alongwith dispensation of statutory records etc. Similar positive steps have been taken on the customs side, particularly relating to EDI based assessment and clearance of import and export cargo. However, it is the perception that much more needs to be done. All in all the common refrain which emerged out of the aforestated exercise was that despite all what has been done, the indirect tax system in the country suffers from the following drawbacks :

(i) Lack of confidence in the tax administration on account of too much discretion, absence of accountability and a pro-revenue bias in all matters, especially quasi-judicial.

(ii) Alienation from tax administration, which manifests into corrupt practices and low compliance.

(iii) Uncertainty about tax policy, administration and absence of time bound decision making all of which affects business decisions.

(iv) Complexities of laws and procedures on account of lack of codification which is exploited for private gain by the unscrupulous tax payer and the tax collector.

(v) Too many laws and procedures which create an environment of confusion and mistrust.

(vi) Too many conditions attached to each exemption and procedure delay decision making and increase transaction costs.

(vii) Absence of transparency in tax planning.

(viii) Customer orientation is missing in the tax collectors who view all tax payers with suspicion.

2.3 Inspite of these problems, a modern, transparent and efficient tax system encompassing the best international practices is certainly possible to implement in the short run. In fact, a review of the indirect tax law and procedures reveals that simplification has also been carried out in the past few years. One has to recognize a discernible move towards reducing departmental interface with the tax payer, increased reliance upon automation, particularly in customs, reducing complexities in tariffs and procedures etc. There can be no two views that these changes have largely been beneficial to the trade and industry. However, it is evident that whatever has been done so far has not been sufficient to impact positively the face of the indirect tax administration in a manner which results in a 'big push'. Therefore, the finding is that for the desired tax system to be achieved without further loss of time mere tinkering with the present law and procedures would not suffice. It is the need of the hour to move away from incremental changes, from the policy of taking ad-hoc and half-hearted measures. What is required is a formulation for a macro-jump of the Indian economy so that India is no longer perceived as a nation hesitantly approaching globalization...a strategy that revolutionizes the way things are looked at and causes fundamental changes in the way things are done in indirect tax administration. Only such a strategy would result in a quantum improvement in the administration of indirect tax system in the country. India must be seen as an economy offering the best internationally accepted standards of tax administration and tax payer facilitation ......now and for all time to come. This would no doubt positively impact the tax to GDP ratio also. Basically the strategy must provide the following elements in the tax administration :

(i) Administration should be based on trust. This translates into clearances based on self-certification.

(ii) To the extent necessary all checks should be based either upon intelligence or post-facto audit within a specified time frame.

(iii) To reduce transaction costs there should be no insistence upon securities.

(iv) Disputes and litigation should be minimized and if a dispute does arise early resolution should be ensured.

(v) All procedures should be IT-centered in view of the comparative advantage we have in this field. Increased use of automation ensures greater transparency, accountability and efficiency.

(vi) Reduce contact points by moving to on-line acceptance of documents.

(vii) Decisions to be rule bound not discretionary.

(viii) A modern tax administration depends heavily on change in mind set, which is to be achieved through time bound training.

(ix) Confidence to be bestowed upon the tax administrators.

2.4 The outcome of this comprehensive exercise has led the Task Force to postulate certain principles, which in its considered opinion must necessarily govern an efficient and tax payer friendly tax administration. Thereafter, the Task Force has examined each of the critical areas of the present indirect tax laws and administration against the touchstone of these principles. The corollary is that such a tax system based upon these principles would encourage voluntary tax compliance, discourage tax evasion, reduce compliance and transaction costs and improve the tax to GDP ratio.

2.5 The Task Force has also duly recognized that an efficient rule bound system cannot exist in isolation and the human element in terms of tax administrators and other facilitators perform a critical role. In fact, an efficient system would demand matching performance from the implementers and facilitators or else the system would simply not be efficient. Hence, due attention has been paid to the aspects of training, automation, HRD and change in mind-set.

2.6 After giving considerable thought it is the view that the first principle which must govern the tax administration of the country is a system based upon **TRUST**. So long as the laws and procedures are made with an eye to prevent misuse, and not with the objective of facilitating the honest tax payers, there would be complexities, excessive documentation, avoidable transaction costs, inefficiencies and corruption. Interestingly, no concrete evidence was brought out that even the present such laws, which are based upon checks and counter-checks have really impacted tax evasion. In fact, the contrary appears to be true. Thus, it is the view that our law and procedures should be based upon trust. This is not to state that there should be no checks provided against misuse. However, what is required is that instead of suspecting all tax payers the system should provide for trusting all tax payers by using modern and scientific methods of risk assessment and intelligence gathering to detect misuse by the few unscrupulous persons. Further, trust by its very nature cannot be selective as this would lead to discretion and formation of pressure groups. Hence, it is proposed that as a policy the law and procedures should be based upon the trust that the tax payer is willing to voluntary discharge his legal obligations and is required to be facilitated by providing an efficient and transparent tax administration.

2.7 The second principle which has governed the proposals of the Task Force is that in the age of mobile financial, physical and human capital we must adopt the **BEST INTERNATIONAL PRACTICES**. It is the view that having committed ourselves to fully integrate into the world economy we can no longer remain unconcerned about having procedures which are not at par with the best in the world. For instance, if the standard in the developed countries is to clear imported goods in 6 hours we should be able to evolve procedures which not only match this but do better. It is only by adopting the best international practices that we can hope to compete internationally. Thus, an endeavour has been made in this direction. It is worth mentioning at this stage that on the customs side we have the advantage of international Conventions (Kyoto and others) which have also been adopted by India. To this extent much has already been done and the C.B.E.C. has taken some steps in aligning the procedures to the extent possible, which is a matter of satisfaction. However, we must act in a hurry and quickly do much more.

2.8 The third principle is that of **SIMPLICITY**. Too many levies, too many rates of duties, too many procedures, and too much documentation, all contribute to complexities, which go against the grain of efficiency. The underlying assumption is that a simple tax law is not only easy to administer at less cost but would also encourage compliance and positively impact the tax revenues. There is a crying need for simplicity in the indirect tax laws. To illustrate, there are over 300 circulars on the subject of EOUs with some overriding the others and some modifying the others. It can scarcely be expected that these many circulars are available to

all in the trade and the departmental officers are no better placed. The net result is an absence of uniformity in application, which is often taken advantage of for private gain. It appears reasonable that the minimum effort to codify the instructions in one place after weeding out those which are no longer relevant would ensure better administration. Thus, there is a need to have a simple law, which should be applied uniformly.

2.9 An equally important principle is that of **TRANSPARENCY**. Tax administration should be rule bound and transparent. There should be as less discretion as is possible. This would increase the tax payers confidence in the administration. It has also been reported that the industry feels alienated as there is almost no institutionalized mechanism to obtain its response while framing a new policy. The concern of the industry is genuine. A remedy lies in involving the tax payers in the formulation of new policies to the extent possible. This has the inherent advantage that the users would point out the advantages and dis-advantages of the proposals as they know best. Secondly, for obvious reasons, compliance would be much better in such sort of participative and transparent policy formulation.

2.10 The next principle is that of **STABILITY**. During its many interactions it was oft repeated to the Task Force that sudden and frequent changes in policies adversely impact the business community. The difficulties get compounded when there is sudden change in the practice of assessment which has revenue implications as reportedly, tax payers are burdened by tax demands for the past 5 years. It is also the view that stability of Government policies is an essential input for healthy and prosperous business. Further, any action of the Government which takes the tax payers by surprise is bound to cause compliance problems. It is, therefore, necessary that not only a policy should be framed in consultation with all the stake holders but it should come into force only from a date in the future and not immediately. Giving sufficient notice is necessary for a healthy business environment.

2.11 The last and very important principle is that of customer orientation of the tax collectors towards the tax payers. There is no doubt that the payment of taxes is the statutory and legal obligation of the tax payers. Similarly, it is the legal responsibility of the tax collectors to collect the taxes for the exchequer. However, it is essential to realize that unless the tax payer is also viewed as customer and treated as such there would be an alienation which tax administration can ill afford. Thus, a tax payer friendly administration requires the administrators to adhere to the principle of **SERVICE** while interacting with the tax payer cum customer. This approach rests upon the assumption that tax payer cum customer facilitation is a critical input for greater tax compliance and reducing disputes and compliance costs.

2.12 It is the view of the Task Force that if the indirect tax administration frames its laws and procedures in adherence to the principles enunciated above viz. **Trust, Best International Practices, Simplicity, Transparency, Stability and Service** coupled with the use of the full potential of information technology the net result would be beneficial to the trade, industry and the Government. There would be improved tax to GDP ratio through enhanced voluntary compliance at reduced costs, and less disputes and litigation. Also the confidence of the tax payer in the administration would be restored. All in all a healthy economic environment. However, it is also important to appreciate that what is essential is not mere lip service to these principles. These have to be implemented immediately and forcefully. The attempt must bring about systemic and fundamental changes in the indirect tax administration so that we have in place an efficient and transparent tax administration, second to none in the world, facilitating the honest tax payers in the conduct of his business in the overall interest of the country. Accordingly, each of the recommendations of the Task Force must be viewed against the backdrop of the aforestated principles. It is the expectation that the individual recommendations would, when implemented, combine to change the face of the indirect tax administration in the country.

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CHAPTER 2

REVENUE AUGMENTATION, TAX LEVIES AND RATES

1. Tax to GDP Ratio

1.1 Falling tax to GDP ratio in general, and similar trend in respect of indirect tax to GDP ratio, in particular is a matter of serious concern, more so when the ratios are falling in the post liberalization era, since early 1990s, when the expectation was to the contrary. There can be no two views that structural and fiscal policy changes over the last decade have been necessary as otherwise the country would have been isolated in the world economy. However, the falling ratios alert us to the fact that much more need to be done than has been done so far and also that a re-thinking is clearly warranted on certain critical issues if the trend is to be quickly reversed.

1.2 On the subject, it is interesting to study the initiatives taken by countries which were similarly placed as ours in the pre 1990s but which have made significant strides in achieving a higher tax to GDP ratio in the last few years (1996 to 2000), such as Brazil, China and Turkey. The common aspect of the reform process in all these countries was to expand the tax base (focusing on consumption expenditure), rationalize tax structure and improve efficiency of tax administration. An important element in relation to tax structure was to focus on incentives, exemptions & distortions. No doubt India too has followed this general direction but not with the same results.

Trends in tax to GDP ratio in select countries (1996-2000)

	1996	**1997**	**1998**	**1999**	**2000**
Brazil	11.00	12.00	12.50	14.40	14.80
China 1/	10.20	11.10	11.80	13.00	14.10
Turkey 2/	15.00	19.05	20.21	21.28	22.03

1/ Revenue performance of Centre, Provinces, and municipalities.
2/ Tax to GNP ratio

Customs Revenues, tax to GDP ratio and average collection rate

Year	Revenue (in Rs. Cr.)	Growth (%)	GDP (in Rs. Crs.)	Tax - GDP ratio	Average collection rate(%) *	Imports as a % of GDP (at market price)	Rev. foregone due to export promotion schemes (Rs. Cr.)
1990-91	20644	N.A.	573444	3.6	74	5.01	N.A.
1997-98	40193	(-)6.2	1522574	2.6	27	12.5	13157
1998-99	40668	1.2	1740935	2.3	23	11.5	15492
1999-2000	48420	19	1929641	2.5	22	12.4	18166
2000-01	47542	(-)1.8	2087988	2.3	21	13.0	21658

* Percentage of total customs revenue to the total value of imports.

Central Excise Revenues and tax to GDP ratio

Year	Revenue (in Rs. Cr.)	Growth in Excise revenue (%)	GDP (in Rs. Crs.)	Tax - GDP ratio
1990-91	24514	5.73	573444	4.3
1997-98	47962	6.56	1522574	3.2
1998-99	59246	11.02	1740935	3.1
1999-2000	61902	16.26	1929641	3.2
2000-01	68526	10.70	2087988	3.3

1.3 As seen, between 1990-91 and 2000-01 the customs revenue to GDP ratio has fallen from 3.6 to 2.3 and the central excise tax to GDP ratio from 4.3 to 3.3. One does not have to look too far to find the reasons for the reduction and some of the reasons are :

(i) The rate of reduction in duty rates (both customs and central excise) has been much higher than the rate of growth of GDP.

(ii) On the customs side, the reduction in rate has not led to higher revenue in view of lower than expected increase in volumes of import.

(iii) There has been a steady increase in the extent of duty foregone on account of the various exemptions including export promotion schemes.

(iv) On the central excise side the contribution of manufacturing sector in total GDP has declined and whereas contribution of services has gone up, this sector is not taxed comprehensively.

1.4 It is but evident that there is an urgent need to arrest the trend of falling indirect tax to GDP ratio if an impact is to be made on the fiscal deficit. Broadly, this calls for action in two areas of tax policy. First is the tax structure and second is tax implementation. In so far as the former is concerned, the following measures are necessary, which are subsequently detailed in respect of each of the indirect taxes :

(i) Widen the tax base by reviewing and removing to the extent possible the duty exemptions – as a general principle, duty exemptions tend to create pressure groups, increase discretion and do not always ensure benefits reach the target. The exemption, when merited (such as in case of life saving goods and sovereign imports of security/strategic interest) should be replaced by a more transparent method of ensuring the relief to the target group, through budgetary support.

(ii) The types of tax levies should be brought down to the minimum - too many levies create distortion and inefficiencies in administration, raising compliance issues.

(iii) Move towards a maximum number of three rates of duty in Central Excise to be achieved in two years and two rates from present 20 rates in Customs, in stages. Fewer number of rates and moderate rates would encourage compliance, reduce discretion and create an efficient tax administration.

(iv) Expand coverage of Service Tax and integration of Central Excise (goods) and Service Tax legislation - It is the expectation that in the long run the service sector would contribute significantly more to the GDP, and even at present it is the single largest contributor. Therefore, for improvement in tax to GDP ratio the scope of Service Tax must necessarily expand.

(v) VAT should be implemented to reduce cascading effects of taxes.

2. Customs Tariff and Exemptions

2.1 Multiplicity of Levies

2.1.1 At present, besides the Basic Customs Duty, we have the following levies :

(i) Special Customs Duty (SCD)
(ii) Additional Duty of Customs (CVD)
(iii) Special Additional Duty of Customs (SAD)
(iv) Additional Duty of Customs on Motor Spirit
(v) Additional Duty of Customs on High Speed Diesel Oil
(vi) Exports Duty
(vii) Cesses on Exports

2.1.2 As a policy, multiplicity of levies must be reduced. Accordingly, it is recommended that there should be only three types of duties, viz. Basic Customs Duty, Additional Duty of Customs (or Countervailing duty) and Anti-

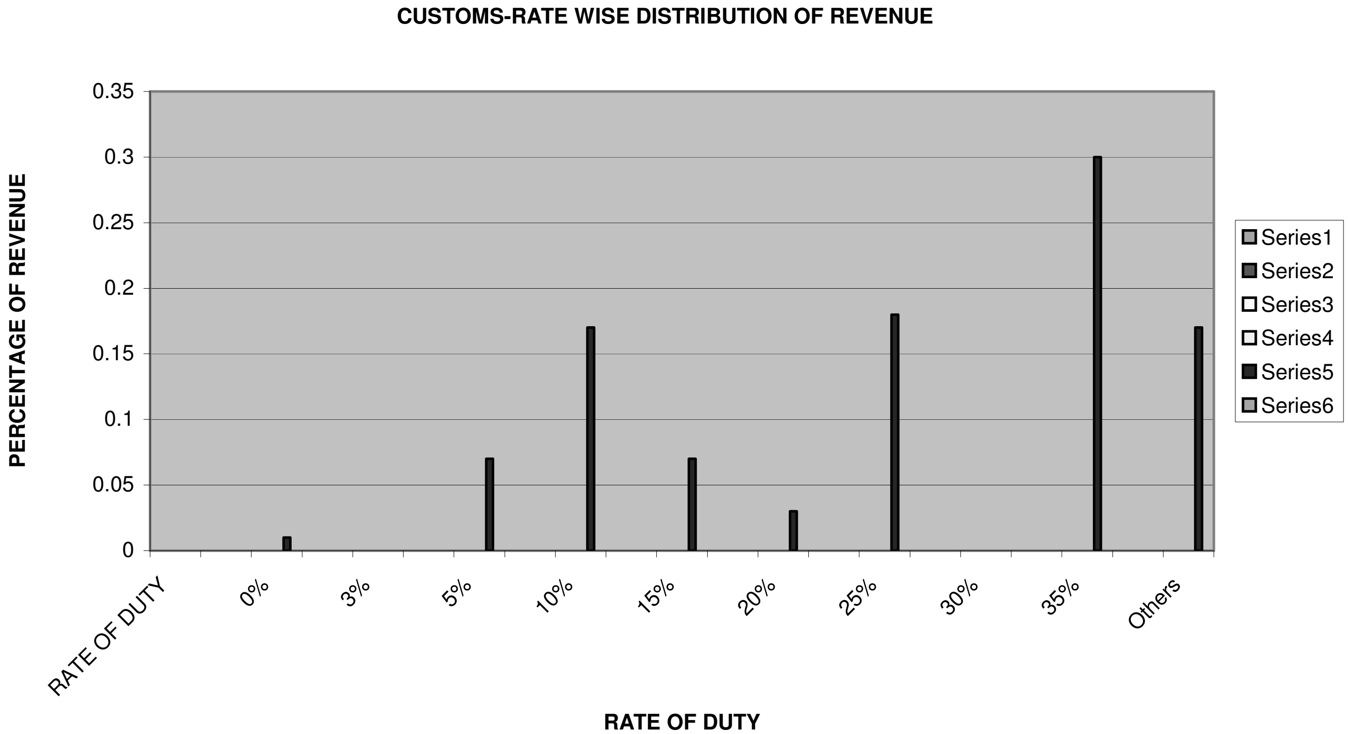
dumping/Safeguard duties. All other duties should be removed. However, removal of SAD should be linked to implementation of State level VAT.

2.2 Multiplicity of Rates

2.2.1 It has been the avowed objective of the Government to reduce the peak rates of customs duty to the ASEAN levels. This is not merely an attempt to follow the other faster growing developing economies but a pragmatic approach to move towards a modern economy producing efficiently according to its dynamic comparative advantage. To achieve this, India needs a large volume of imports which are necessary for technology upgradation. These imports have largely to be paid for by a high level of exports which require import at world prices. That imports are necessary for exports and the development of an economy is a settled proposition and the answer lies in encouraging imports without quantitative barriers, without licensing, and having reasonable tariffs. However, revenue considerations are known to affect the pace of reduction of tariffs in most countries, especially developing countries which are heavily dependent upon indirect tax revenues. But experience of successful trading economies have shown that sheer increase in volume of imports has more than offset the fall in revenues on account of cuts in tariff rates, though there may be a transition period. This has to be balanced by a comprehensive reform of the tax system.

2.2.2 The customs tariff, completely aligned to HSN contains 99 chapters wherein all the goods are classified. Each Chapter contains a number of goods and against each Tariff Heading or Sub-Heading the rate of duty is indicated. As seen, the Customs tariff has continued to remain most complicated even after several years of reforms since 1991. This can be seen from the rates of duty, which are 20 in number (182, 160, 150, 105, 100, 85, 75, 70, 65, 50, 45, 40, 35, 30, 25, 15, 10, 5, 3, and nil). 30% rate is the median rate i.e. the most common rate. Besides some items are subjected to specific duties.

2.2.3 The difficulties in administering such a large number of rates are evident. Importantly the large number of rates lead to discretion which should be best avoided in taxation. Further, it is evident that such a large number of duty rates can only contribute to complexities of clearance procedures. Accordingly, it is the view that a modern tax system should be based upon the minimum number of duty rates. In fact, even at present, the major share of revenue comes from few rates only. Hence, it is necessary to quickly move to the least number of duty rates.



2.2.4 In this regard, it is the stated policy objective of the Government that by 2004-2005 there would be 2 rates of customs import duties, namely 10% and 20%. Whereas the lower rate of 10% would broadly cover all categories of raw materials, inputs and intermediate goods, the higher rate of 20% is for final goods. At the same time it is necessary to clear the misunderstanding in some quarters that there would be only these two rates and no other. Internationally the majority of the countries have more than 2 rates, though it is also a fact that the endeavour is to have the minimum number of rates as far as possible. Invariably certain de-merit goods have a higher rate and agriculture produce is also subjected to other than the identified one or two rates.

2.2.5 In this direction one approach is to categorize the items in each chapter of the customs tariff as raw material, intermediate goods and final goods and then fix an appropriate rate of duty for each. However, while this may be possible for some items it is not so for others. For instance, steel is both a final good and an input. Another approach could be to fix one rate for one chapter since by and large the items in a chapter would fall in one category. In any case while the approach can be worked out, as regards the number of rates for all items (excluding agriculture produce) **the following road map is recommended for the future so that there is no uncertainty in the minds of the investors and industry.**

(i) O% - for items like life-saving drugs, sovereign imports (security related goods etc.) and imports by RBI.

(ii) 10% - for raw materials, inputs and intermediate goods.

(iii) 20% - for final goods.

(iv) Higher duty rate upto 150% for specified agriculture produce and demerit goods.

The recommended rates, as above, are to be achieved by 2004-05.

Having regard to our commitment to reform, it is recommended that for no item should the present duty rate be increased, unless the item is charged to nil duty, in which case a minimum duty of 5% can be imposed.

2.2.6 A word of caution is warranted in the move to the suggested rates of duty. In the event, if the import duty on a particular item is currently high, say, 30% and it has to move to 10% then certainly a sudden reduction to 10% in just 1 year would upset the domestic industry and it would also not be desirable from the point of view of revenue. Thus, certain high rate-high revenue items may require a more gradual move towards 10%. **Hence, it is recommended that as a general policy, the downward revision of duty rates should be in stages of (–) 5% each year.** However, it is quite possible that Government chooses to move to the identified lower rate at a faster pace. All endeavour should be made to move to the identified rates of duty, as above by 2004-05.

2.3 Customs Duty Exemptions

2.3.1 Whereas the customs tariff indicates the peak rate of duty also called the tariff rate of duty applicable on a particular item it is not the case that this is the duty actually leviable when the said item is imported. The leviable duty also called the effective duty is determined in the context of the duty exemption notifications, if any, issued in respect of the said item in terms of Section 25 of the Customs Act, 1962. Thus, on account of an exemption an imported item is subjected to a duty lower than that prescribed in the tariff. At times the duty payable may even be nil. The exemptions are generally catergorized as follows :

(i) General exemptions which are non-conditional and can be availed by all importers.

(ii) General exemptions which are subjected to conditions such as end-use.

(iii) Ad-hoc exemptions, which are issued in respect of specific imports for security, strategic or charitable purposes - the number of ad-hoc duty exemptions are coming down, no doubt, due to the effect of the legislative change, in 1999, restricting the scope of the exemptions to imports of strategic, secret interest or for charitable purposes. This is a good development.

2.3.2 At present, the exemptions can broadly be placed into the following categories:

(i) Importer specific – e.g., Government (defence and police) etc.

(ii) Project and purpose specific – e.g. training, educational, research, Oil exploration etc.

(iii) Social and health sector/objective specific – e.g. handicapped persons, charitable and social welfare organizations, donations and gifts, medicines, drugs and hospital equipments etc.

(iv) Export related – e.g. samples, packaging materials, durable containers, advance licence, passbook etc.

(v) Sports related – e.g. sports goods, prizes, medals and trophies

(vi) International commitments – There are a number of international agreements that bind customs duties. These include the GATT/WTO bound rates, contractual commitments such as oil exploration contracts, Information Technology Agreements, exemption to privileged persons, organizations, authorities and foreigners, preferential areas etc.

(vii) Others – e.g. exhibitions, seminars, or expeditions, re-imports

2.3.3 Whereas the broad categorization of exemptions is possible it is not possible to quantify the items of import which are eligible for the exemption. This is due to the fact that the exemptions have a list of items annexed thereto and the entries are often omnibus in nature.

2.3.4 Any exemption has revenue implication. On their part conditional exemptions invariably necessitate imposition of regime of certification, verification etc., which adversely impact the clearance of goods, result in higher administrative costs, use of discretionary powers, and raise compliance issues on account of misuse. Exemptions are also nothing but a subsidy, and in fact, a discretionary subsidy. Thus, aside from the obvious impact on the tax to GDP ratio, the duty exemptions have undesirable side effects. The fact that exemptions also cause loss of transparency is another aspect of serious concern for the policy makers.

2.4 End-use based exemption

2.4.1 At present, there are a large number of exemptions subject to the condition of end-use, which is sought to be confirmed by the requirement of production of a certificate from a competent authority, usually a Government Officer that the imported goods are meant for the declared use. To illustrate, in case of sports goods the certification would be done by Sport Authority of India and in the case of IT products by the Information Technology Ministry. There are around 33 such certification agencies. There can be no two views that involvement of multiple agencies would only increase the transaction cost besides contributing to delays in customs clearance.

2.4.2 Besides the problems associated with certification, the end use based notifications require the customs to ensure the goods are indeed meant for the stated use. This is invariably accomplished by calling for literature of the imported item. As a result queries are raised and till the literature is produced and perused the goods cannot be released. Thus, the end use based exemption notifications do not facilitate quick customs clearance and also militate against on-line appraisal and clearance of imported goods. Therefore, as the intention is to expedite the clearance of the goods and that too without examination, to the extent possible, the solution lies in removing all the end use-based exemptions, which necessitates the calling of literature and certificates from different departments.

2.4.3 On the subject it is increasingly been noticed that there is a move towards removing the requirement of execution of bonds with the customs authorities for the fulfillment of post import conditions. This is a welcome step as it reduces delays in clearances and also transaction costs. However, it is not the case that the bonds are being removed altogether. What is being provided is that such importers must follow the provisions of Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 1996. Invariably this entails the importer to obtain registration with the central excise authorities, followed by execution of bond, filing application for import of goods, maintaining records for verification, obtaining case by case permissions for import etc. Hence, the new procedure is merely a substitute for the system of end-use bonds as instead of the execution of the bonds with the customs authorities the importer registers with the central excise authorities and must satisfy this authority that the goods have been used for the intended purpose.

2.4.4 It is the view that the present procedure is not desirable. Such procedure only increases the contact points and the cost of compliance. On principle it should suffice that customs clear the goods on the basis of the importer's declaration and if misuse is detected on the basis of intelligence or post clearance audit checks, the duty should be recovered along with interest.

2.4.5 As a policy end-use based exemptions must be avoided. However, when this is not possible the customs clearance procedure must provide for the grant of the exemption without insistence upon literature and certification and the customs would reserve the right to carry out a post clearance audit check based upon risk management tools i.e. not as a matter of routine. This is also in line with the best international practices

2.4.6 To sum up, criticizing all duty exemptions would be a simplistic approach. Exemptions do serve a number of objectives by ensuring that the imported goods are not only available but also at less cost. Exemptions also serve to stimulate domestic economic activity by making available a level playing field. However, it is also true that exemptions once granted tend to continue even if the objective has since been met and even if alternative and more transparent mechanism is available for achieving the desired objective. Exemptions tend to distort the opportunity cost and in the long run adversely impact competitiveness. Invariably the exemptions are conditional and also impact the pace of clearance on account of necessity of verification process. Overall falling tariffs and India's commitment to bringing down the customs rates of duties to international standards by 2004-05 must also influence the decision whether a particular exemption merits continuance or not.

2.4.7 It is recommended that the grant or continuance of exemptions must be judged against the following criterion :

(i) As a policy, all exemptions must be removed except in case of :

(a) Life-saving goods.

(b) Goods of security and strategic interest.

(c) Goods for relief and charitable purposes.

(d) International obligations including contracts.

(ii) As a general policy, when exemptions are removed but the relief is justified, the targeted beneficiary may be assisted by upfront transparent budgetary support based on a prior stated objective criteria. By such method, the expenditure would be subject to Parliamentary scrutiny and there would be public debate besides CAG audit.

(iii) In case an exemption is justified, it should not be end-use based conditional exemption. However, in the event the end-use condition cannot be avoided, the confirmation of end-use should be done on the basis of selective post clearance checks by using Risk Assessment techniques. It should <u>not</u> be based upon the Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 1996, as the implication in terms of registration with central excise, execution of bond etc. increases contact points and the cost of compliance.

(iv) As a general policy, there should be no exemption from Countervailing duty (CVD), which is at par with the duty paid by the domestic manufacturers of similar goods, including in cases where the exemption from basic customs duty is merited. An exemption from CVD places domestic industry (including potential industry) at disadvantage and serves to deter domestic investment in these areas, which is not desirable.

(v) Best international practices should be one criteria for determining the requirement of otherwise of an exemption.

It is the view that adherence to the above principles would widen the tax base, improve the tax to GDP ratio and improve the tax administration.

2.5 **Nature of tax rates - specific versus ad-valorem**

2.5.1 A perusal of the Customs tariff shows that for a few items there are specific rates of duty viz. While the administrative convenience of specific rate is not debatable, these are out of place in an economy seeking to maximize its revenue through buoyancy. A modern tax system should not have specific rates at all. Specific rates also do not allow for buoyancy in revenue on account of price changes. **Accordingly, as a policy there should be a move away from specific rates towards ad-valorem rates.** These findings would also apply to the central excise notifications, to the extent relevant.

2.6 In the light of the above recommendations, the suggested customs duty structure on imports is given in Annexure 'A'. Since agricultural products stand on a different footing, the Task Force has refrained from suggesting the proposed rates and recommends an Expert Group should be set up for the same.

3. Central Excise Tariff and Exemptions

3.1 Multiplicity of levies

3.1.1 At present there are more than one type of levy administered by the central excise department other than the CENVAT (central Value Added tax) duty. These other duties are :

(i) Special Duty of Excise (SED) - levied under authority of – provision of Finance Act.

(ii) Additional Duty of Excise (AED) – levied under authority of Additional Duty of Excise (Goods of Special Importance Act, 1957) on specified goods, sugar, fabrics and tobacco products.

(iii) Additional Duties of Excise (Textile and Textile Articles Act), 1978

(iv) Additional Duty of Excise (AED) – levied under authority of Additional Duty of Excise (Textile & Textile Articles) Act, 1978 on specified fibres, yarn and fabrics.

(v) Additional duty on Motor Spirit and High speed Diesel – levied under authority of Finance Acts.

(vi) Cess – under various enactments such as Jute Cess Act, Tea Cess Act, etc.

3.1.2 It is well known that multiplicity of levies do not contribute to ease of administration. Invariably separate accounts are to be maintained by the tax payer and the tax collector, which pushes up the cost of compliance. Further, the complexities caused by multiple levies also give rise to errors and disputes. In fact, in cases when an item is subject to more than one levy we often have audit pointing out that one or the other levy was not paid. Even conceptually it is not at all clear why we should continue to have the AEDs, which are basically imposed in lieu of sales tax. So long as this levy continues it would be difficult to move to the National VAT, as is proposed. Accordingly, in order to have a simple administration which has as its advantage reduced complexities and compliance costs, it is desirable that there should not be multiple levies.

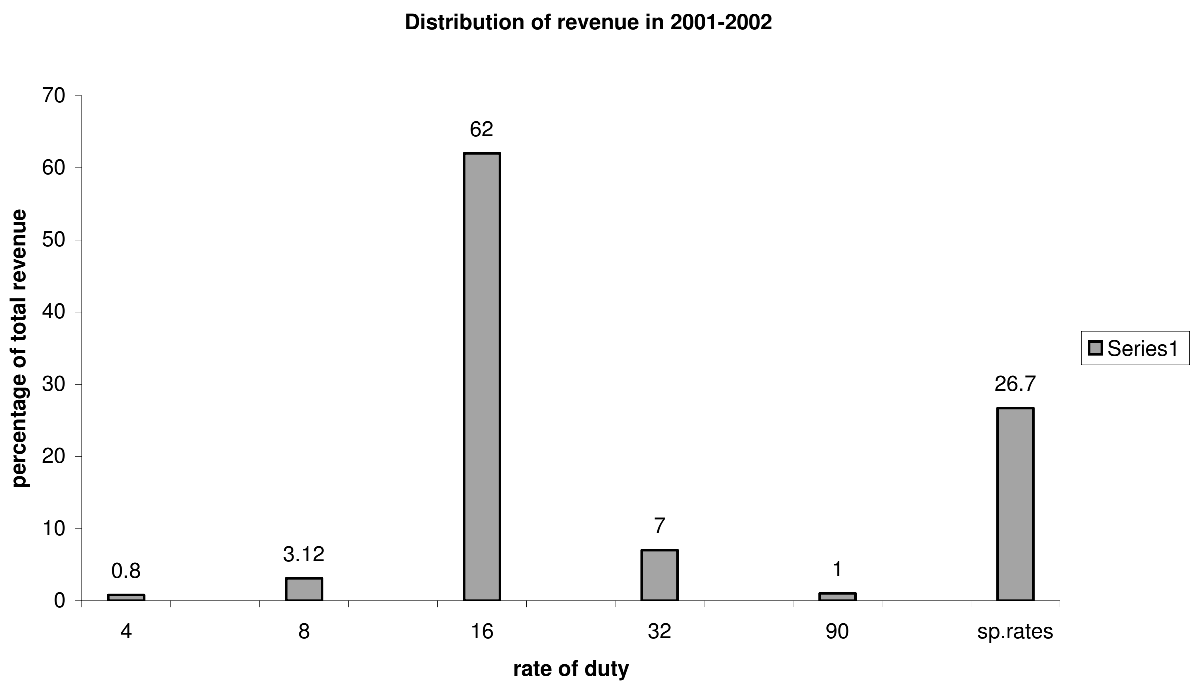
3.1.3 It is recommended that as a policy, we should review all levies and have only one levy, i.e. the Cenvat.

3.1.4 An alternative scenario is proposed if for some reason it is not found possible to remove multiple levies at one go. At present, both the tax payer and his counterpart, the tax collector indicate the tax paid under each of the levies separately and subject the same to calculations to confirm the correctness of the payment. This system is not conducive to efficient implementation and given the large number of transactions, mistakes can not be ruled out. It appears that so long as the total tax is correctly paid, the tax payer should not be bothered with the task of giving the break up. This is a job strictly for the administrators who have to later divide the tax proceed under various accounting heads. Accordingly, it should be provided that when a product attracts multiple

levies only the total levy (i.e. one figure only) should be indicated against the particular item. This amount would be paid and the system should further break it up into the individual heads. This would save the tax payer and the tax administrator the exercise of carrying out all sorts of complex calculations. Of course, one problem in this system would be that at present, under the Cenvat Credit Rules, the credit of a particular duty can be used to pay the same duty on the final goods. Thus, the tax payer must know the element of each duty for this purpose. This can be done by indicating the break up of the total duty (in percentage terms) into its respective heads – in like manner of the Drawback Schedule. As stated, the ideal solution is to have a single levy.

3.1.5 It is recommended that till such time as there are multiple levies, there should be a schedule indicating the total tax payable on a particular product and the system should internally segregate the same into the respective levies.

3.2 Multiplicity of Duty Rates



3.2.1 In so far as the multiplicity of rates on the central excise side are concerned, it is appreciated that recently steps have been taken in the general direction to reduce the multiplicity. For instance, the number of duty rates has been reduced substantially, from 11 rates in 1997-98 to a single rate of 16% at present, except in few cases. Whereas a single rate has many advantages domestic economic considerations do not always permit so. Internationally also it is not the practice to have a single rate. However, it is certainly true that the endeavour should be to have as few number of rate of duty as is possible. It is expected that the rationalization of exemptions over the time would also lead to this situation.

3.2.2 It is recommended that the central excise duty rates should be as follows :

(i) 0% would be for life-saving drugs, security related items and the like.

(ii) 8% would be for food products.

(iii) 16% would be for all items.

(iv) Separate rates for agriculture products.

(v) Separate rates for tobacco and tobacco related products.

3.2.3 As regards the move to 16% duty rate it is the view that the move can not be all of a sudden. The transition has to be staggered to give the industry time to adjust. The availability of Cenvat credit would also act as a buffer whenever duties on inputs and raw materials have to be increased on account of this approach.

3.2.4 Accordingly, **it is recommended that the road map of duty rates should lead towards the identified duty rate (for the product) through a mechanism of (+) or (-) 4% each year, depending upon its current rate of duty.** To illustrate :

<u>Duty rate at 0% or Nil</u>

Year 0 (2003-04) - From 0 % to 4% (without Cenvat) and to 8% (with Cenvat)

Year 1 (2004-05) – From 4% to 8% (without Cenvat) and 8% to 12% (with Cenvat)

Year 2 (2005-06)– From 8% (without Cenvat) and 12% (with Cenvat) to 16% (with Cenvat)

<u>Duty rate at 32%</u>

Year 0 (2003-04) - From 32 % to 28%

Year 1 (2004-05) – From 28% to 24%

Year 2 (2005-06) – From 24% to 20%

Year 3 (2006-07) – From 20% to 16%

3.2.5 This is the general rule. However, it is possible that the Government may move down to 16% even quicker, which would be a welcome move.

3.3 Duty structure for Petroleum sector

3.3.1 The petroleum sector occupies a very important place in the economy in view of its direct and indirect use in practically every sphere of economic activity but also in terms of its direct impact on the revenues of the Government as it is the single largest source of revenue. At present central excise duty rates on petroleum products vary from 14% to 28% - 14% for HSD and 28% for petrol – with 16% being the rate for other petroleum products. On the customs side the rates of duty very form 10% (crude) to 20% (other petroleum products).

3.3.2 With the dismantling of the Administered Price Mechanism, it is essential to allow the prices of the petroleum products in the domestic market to be determined on the basis of import parity price. Accordingly, the import duty has to be brought down from the present levels. At the same time, as crude is the basic raw material for other petroleum and chemical products there has to be a duty differential varies from nil to a maximum of 5 percentage point In this regard, it is observed that the international practice is that the differential is around 2 percentage points as the value addition is normally around 10-15%.

3.3.3 Accordingly, taking into account all factors including profit margin of refineries, the value addition and need to keep the product prices reasonable for the consumers, **the road map for duty structure on petroleum has to be kept distinct from that of other products and the following recommendation is made :**

(i) A 5% customs import duty differential between crude and its products.

(ii) Year 0 (2003-04) : Basic customs duty - on crude - 10%
- on other products - 15% .

Year 1 (2004-05) : Basic customs duty - on crude - 5%
- on other products - 10% .

(iii) Central Excise duty : 16%

3.4 Duty structure for Textile sector

3.4.1 The disparity in the central excise tax structure is most evident in the textile sector because of the policy of trying to meet various social objectives through tax rates and exemptions. The duty is summed up as follows :

(i) Yarn duty varies from 8% for cotton yarn to 32% for polyester filament yarn. Other yarns attract 16% duty.

(ii) Woven fabrics and garments and textiles made ups attract duty at 12% (this rate is committed upto 2005).

(iii) Knitted cotton fabrics and knitted garments have the option of paying 12% duty

(iv) Yarns, handloom fabrics and garments and knitted cotton fabrics have a number of exemptions.

(v) Hand processed fabrics are exempt from duty even if power is used for some processes.

3.4.2 The present tax structure with its plethora of duty exemptions distorts the production pattern. However, the levy of duty raises the problem of its administration as the large number of the units engaged in the weaving of fabrics are mostly in the unorganized sector. There would also be the problem of spinners of yarn in the decentralize sector. This can easily be taken care of by putting all unprocessed woven and knitted fabrics as well as yarns under the general small scale sector duty exemption. To continue the exemption for handlooms, the processing of handloom fabrics can be given the benefit of the said exemption. In case a unit processing handloom fabrics is thus required to pay duty, it should be given a transparent subsidy as in the case of hank yarn. However, central excise duty will continue to be leviable on all other processed fabrics. Even fabrics processed without the aid of power or steam should be subjected to duty. With the removal of deemed credit, this will ensure that the units which want to take credit of the duty paid on the inputs would procure their raw materials from the duty paying units. If there is any procedural difficulty because of complexities in textile trade where the traders play a very important role, suitable arrangements may be made to allow the traders to pay duty and get the fabrics woven or processed on job work basis. In that case, the traders will pay the duty and take credit. Similar arrangement is already being availed by the garment manufacturers. The textile sector should also be charged to the normal Cenvat rate but since a commitment has been made in this year's Budget that the 12% rate would apply to fabrics, made-ups and garments till February 2005 it is the view that the commitment should be honoured and the normal Cenvat rate should apply after February 2005.

3.4.3 It is recommended that as a general policy the textile sector should be subjected to the standard rates of duty. In view of the commitments already made, the 12% rate may, however, continue till February 2005. The deemed credit facility should be withdrawn forthwith.

3.5 Central Excise duty exemptions

3.5.1 Central Excise duty exemption notifications are issued under the provision of Section 5A of the Central Excise Act, 1944. In like manner to the Customs duty exemption notifications, these also provide relief to the tax payer such that the tariff rate of duty need not be paid and only the concession (or nil) duty has to be paid. A review of the exemptions reveal that over the past 5 years there has been nominal decline in the number of exemptions. However, it is worth noting that the total number of exemptions is not a correct reflection of the number of products being exempted from levy of excise duty. This is due to the fact that one exemption may contain a large number of products spread over a large number of product classifications. For instance, duty exemption notification No. 6/2002-C.E., dated 1.3.2002 is applicable to over hundreds of items, some of which are indicated by their generic descriptions and the actual number of items would be so much more.

3.5.2 It appears evident that monitoring duty exemptions to ensure that these are issued on sound principles and withdrawn when the objective is met is a critical task for the government, which impacts the tax to GDP ratio. However, review of duty exemptions does not appear to be done though the ground realities warranting exemption may have undergone change. Also some exemptions may lead to distorted investment decisions as the industry believes that the exemption will continue *ad infinitum*. It appears that an exemption when issued to meet a specific objective should be reviewed periodically with change in ground conditions. The continuing grant of exemption may not be conducive to efficient utilization of resources. Hence, it is necessary in the interest of transparency that when an exemption is issued it indicates the period of its validity with a proviso that changed circumstance may warrant a mid-term review, the periodicity to be mentioned. This would ensure a comprehensive periodic review by the Government which must record the justification for its continuance. It would also put the burden on the beneficiaries to establish the continued justification for the exemptions. This also resolves the problem of promissory estoppel and also ensure transparency and stability.

3.5.3 Taking into account all factors the **recommendation is that the grant of exemptions on the central excise side needs careful consideration and justification based upon the following touchstones**.

(i) **Income elasticity of the product** - an exemption is not justified on items which have high elasticity. In other words, social equity demands that exemption should not be granted in respect of goods which are purchased or used by the high income groups and can be termed as luxury goods. This is not to justify the grant of exemption in each and every case the goods are consumed by the masses. A careful approach is required before grant of exemptions.

(ii) **Cost of compliance** is an important element which would justify the grant or otherwise of the duty exemption - in view of the vastness of the economy and that the tax administrators are spread thin it is desirable that the cost of collection should not be high. Hence, an exemption should be weighed both against the revenue mobilization as well as the cost of collection thereof. In the event, the cost of collection is significant it may be an economically viable decision to grant exemption.

(iii) **International practices** serve as an important input for grant or denial of exemption. No doubt the ground realities and compulsions of other countries may not adequately compare with the situation at home nevertheless tax treatments of goods internationally do reflect the international thinking. For instance, it is a common trait internationally that demerit goods are subject to high tax rates, and the same is done here also. Likewise exemptions to environmental friendly equipment is an international phenomenon and is equally justified at home.

(iv) Whether an exemption meets the **canon of transparency** or not is an important factor to be taken into account while examining the issue. By and large conditional exemptions run the risk of increase in cost of compliance and inefficient monitoring systems provide scope for misuse. On principle a more transparent methodology is the grant of budgetary support to the activity warranting an exemption. This would ensure accountability, reduce transaction cost, and most importantly lead to periodic monitoring on regular basis. In such scenario the unintended continuance of an exemption would also be ensured against. In other words while granting exemptions on sound principles the scope of extending the intended benefit through budgetary support should first be examined.

3.5.4 Applying the aforementioned tests to the present exemptions the consensus is that a number of duty exemptions can be removed without adverse impact on the industry.

3.5.5 As stated, the general prescription in respect of grant of duty exemption, as indicated in the context of customs duty exemption notifications would equally apply. In other words, it is the view that sound taxation policy demands limited use of exemptions. Further, when exemptions are justified these should not end use based conditional exemption, which cause compliance

problems and increase contact points which are best avoided. **Instead of exemptions we should move to a budgetary mechanism for giving the same relief.**

3.6 Small Scale Sector duty exemption

3.6.1 The Small-Scale Sector Industries (SSIs) have been playing an important role in India's economic development in the form of value addition, employment generation, mobilisation of capital, entrepreneurial skills and contribution to export earnings. At present, the SSI sector with over 40 lakh units spread all over the country accounts for nearly 95 per cent of industrial units in the country and 40 per cent of value-added in the manufacturing sector. Its share is as high as 34 per cent in national export and it contributes roughly 7 per cent to the country's total GDP. Yet its contribution to excise revenue is negligible, only of the order of 3.4% of the total excise revenue.

3.6.2 Traditionally, the central excise duty exemption has been used to support the SSI sector. But it has been noticed that over the time the exemption is increasing and today no central excise duty need be paid by a unit whose clearances are upto Rs. 100 lakhs in a financial year. Whereas there is no doubt that the smaller units do need the central excise exemption, the flip side is that so long as such a vast sector continues to remain exempted, avoidable distortions are caused, as follows :

(i) The adverse impact on the tax to GDP ratio is an undeniable outcome of the increasing exemption limit for this sector.

(ii) Central excise being a tax at first stage of production, the exemption therefore leads to non-accountal of production which leads to non-payment of all other taxes (Income Tax, Sales tax etc.) and generation of black money.

(iii) Exemption leads to misuse of Cenvat credit by the duty paying (large) sector which procures the exempted goods from SSI sector but wrongly takes credit on basis of duty payment documents generated elsewhere.

(iv) Non-accountal of transactions encourage a cash economy with its own adverse implications.

(v) The exemption gives benefit to units upto a specified turnover after which, duty has to be discharged at the full rate. Therefore, for obvious reasons the units prefer to keep their turnover within the full exemption limit, either by unaccounted removals or by horizontal proliferation. This is not desirable from the point of view of evasion of tax. It also discourages economies of scale.

(vi) Duty exemptions for the SSI sector cause a break in the Cenvat credit chain and would adversely impact the adoption of a full fledged VAT.

(vii) An exemption leads to loss of valuable data which proves counterproductive in respect of dissemination of information, tax planning etc.

3.6.3 In so far as the payment of tax in general is concerned it is important to appreciate that the SSI sector does pay its dues, the sector contributes significantly in the payment of central excise duty on the goods procured from the duty paying sector, payment of income tax, sales tax etc. However, the units do not pay central excise duty. The starkness of this simple statement is brought out when we find that a person owning a phone or residential property is on the records of the Income Tax; a person with a turnover of Rs.40 lakhs is subject to compulsory audit by income tax; all such persons pay sales tax and income tax etc. Yet, upto a turnover of Rs. 100 lakhs no central excise tax need be paid and upto clearances of Rs.90 lakhs in a financial year these are not even on the records of the central excise department. The threshold limit for exemption in the developed countries does not exceed Rs.30-40 lakh. It is also the view that the ever increasing exemption limit (from Rs.25 lakhs to Rs.50 lakhs and now to Rs.100 lakhs) has been cornered by the larger of the SSI units and the smaller (tiny and family) units continue to produce at lower levels of output. In

fact, being a first point tax non-payment of central excise duty leads to non-accountal of production and income which leads to non-payment of sales tax, income tax, generation of black money etc. Obviously there is something wrong somewhere.

3.6.4 It is the view that as a policy, SSI sector must also pay central excise duty. In fact since they already pay all other taxes there should be no hesitation in paying the central excise duty also. In any case, being an indirect tax, it gets passed on the consumer. Moreover it is the finding that the SSI sector is not averse to payment of central excise duty so long as they do not have to interact with the department. There is a logical reason for this. Since the units are mostly one-man shows dealing with the tax department would lead to loss of man-hours which they can ill afford. This is especially true of the smaller of the SSI units. The bottom line is that it is not the payment of excise duty rather method of collection of the same i.e. harassment by the department which is bothering the SSI sector. Accordingly, what is required is a moderate tax rate and a transparent mechanism to collect the due tax without interaction with the department to the extent possible. At the same time it needs to be appreciated that the present system of collection of central excise may not be administratively able to cope with over 40 lakh units. Hence, while accepting that the smaller of the SSI units need to be kept out of the tax net it is also necessary to evolve a modern system of tax collection which does not encourage interface, contact points and excessive documentation.

3.6.5 The matter of SSI duty exemption was debated at length and the view was that the exemption must be available to only the really small units with turnover of upto Rs. 50 lakhs. Other units must gradually start paying the duty. This is, however, subject to the condition that the central excise procedures improve appreciably and the procedures are small scale sector friendly. In short, the view regarding the Small Scale Sector duty exemption is that the problem in payment of duty (by the sector) is basically that the present procedures do not encourage participation and confidence building. Accordingly, there is a need for confidence building measures, which may take some time. In this background, **the following recommendations are made :**

(i) **The exemption should be extended to only small units with a turnover of Rs. 50 lakhs - This would ensure the really small scale units being run mostly with family labour and having low capital investment get the desired support. It will exempt those units whose compliance cost will be significantly high relative to their tax obligations.**

(ii) **The exemption limit for the larger SSI units should be gradually brought down to Rs. 50 lakhs. The gradual downward revision of the limit would give the industry time to adjust. The time frame is suggested, as follows :**

Year 0 (2004-05) – From Rs.100 lakhs to Rs. 75 lakhs.

Year 0 (2005-06) – From Rs.75 lakhs to Rs. 50 lakhs.

However, on reduction of the exemption limit, the unit would have the option of payment of duty at 4% (without Cenvat) on the value of clearance upto Rs. 1 crore. The other option available at present of paying duty at a certain percentage of the normal rate would continue to be available.

It is important to note that the downward revision in exemption is proposed to be complemented by a transparent and hassle free tax collection mechanism, which must be in place from April 2004.

As stated, there was a minority view that the small scale sector needs continuing support of the tax exemption.

(iii) **The duty exemption should be based upon total turnover** - Since the exemption is for a small scale unit, the logical criteria to determine the smallness of a unit is its turnover. It can reasonably be expected that if the turnover is

few hundreds of lakhs there is really no difference between a small scale and a large scale unit. Accordingly, at present, a unit is entitled to a small scale exemption if the value of its clearances does not exceed Rs.300 lakhs in the previous financial year. This figure is determined after ignoring the value of clearance of exempted goods and goods exported. Thus, if a unit has clearances of Rs.10 crores or even Rs.20 crores it would still qualify for the SSI sector exemption if these are exempted goods! Surely this cannot be the intention of the duty exemption scheme. It is the view that this is a wrong methodology. The central issue is whether a unit is small or not, a factor of its turnover. Thus, the duty exemption should provide for determining the turnover based on value of total clearances including exempted goods. However, in view of the special contribution of the sector towards the overall exports and to encourage exports, it is proposed that the clearances for exports may continue to be excluded for this purpose, as at present.

(iv) **On principle duty exemption for SSI sector should not subsidise consumption of luxury items by the affluent** - Central Excise duty is an indirect tax and is paid by the consumer of the goods. In case of an exemption on the goods, the benefit actually accrues to its consumer. It is the view that consumers of luxury goods (e.g. Airconditioners) do not merit the subsidy extended indirectly to them through the SSI sector duty exemption. Hence, it is proposed that a negative list of such items should be drawn up and the SSI sector duty exemption should be denied to a unit making these items. One yardstick to define a luxury item may be that item which attracts over 24% duty. However, this is only a guideline.

(v) **Declaration of production activity** - At present a SSI unit is required to file a declaration with the Department when its clearances touch Rs.90 lakhs. **It is proposed that with effect from 1st April 2003 a Declaration should be filed by the unit when value of its clearances touches Rs.50 lakhs.** We can simply not have a modern tax system unless there is a data base and proper accountal of all transactions.

3.7 Extension of SSI sector duty exemption to Matches

3.7.1 At present, the small scale sector duty exemption does not apply to Matches. This sector has over 18,000 tax payers, with an overwhelming majority in the cottage sector located in and around Madurai and Chennai, and only 2-3 large mechanized units. The revenue from Matches is nominal - only Rs.32 Cr. in 2001-2002. Thus, large number of small scale assessees are subject to nominal tax, which is not desirable particularly as it is in contrast to general policy to exempt from excise duty the small scale sector.

3.7.2 Rules 13 and 14 of Central Excise Rules, 2002 prescribe a special procedure for the assessment and collection of duty on Matches (CETH 36.05). This procedure continues on the statute as a unique dispensation for the Match sector. It envisages payment of central excise duty by the method of affixing to each box or booklet a central excise stamp of the value appropriate to the duty. The stamps are printed at Government Security Printing Press, Hyderabad and kept in safe custody at the District Revenue Treasuries or Sub–treasuries wherefrom these are supplied to the individual Match manufacturers. It is the finding that the special duty structure for the Match sector and the special procedure, which is an aberration in so far as the general procedures of central excise administration is not desirable. Some of the common problems which have been noticed are :

(i) The system is inefficient – reportedly, the cost of collection of revenue ranged from 124% in 1998-99 to 68% in 2001-02 - major share being the cost of purchase and distributions of stamps.

(ii) Cost of compliance is high as a tax payer has to shuttle between the Range Office and the Treasury more than once to pay the duty and obtain central excise stamps before effecting clearance.

(iii) The central excise stamps are frequently not available, which dislocates the production activity besides increasing the administrative work on account of Department having to declare 'Stamp Holidays'.

(iv) The specimen of the labels (of stamps) are approved by the Department, and often it is dragged into disputes of Trade Mark. This is avoidable litigation.

(v) The Treasuries are under the control of State Government and the Security Printing Press under Department of Economic Affairs, Ministry of Finance. Thus, procedural or other delays at either end affect the collection of central excise revenue.

3.7.3 As a result of the unique tax structure and absence of duty exemption there is, reportedly, wide spread corruption and inefficiency. There can be no sound rationale why the poor unorganized sector is being deprived the advantage of the SSI sector duty exemption. In fact, if there is a case for the SSI sector duty exemption for any item it is the Match sector. Accordingly, it is necessary to clean up the central excise law and bring this sector into the main stream.

3.7.4 It is recommended that :

(i) The small scale sector duty exemption should be extended to Matches - the vast majority of the manufacturers would then be outside the scheme of excise procedure i.e– no registration, no records, no returns and no payment of duty. This would be a relief to the small and cottage sector units.

(ii) The duty structure may be made ad-valorem. Since, the duty would be paid only by the large units (semi-mechanized and mechanized) only the Cenvat credit scheme can be extended. Such step would also clean up the Central Excise Rules as the rules 13 and 14 may be deleted.

3.8 In the light of the above recommendations, the suggested central excise duty structure is given in Annexure 'B'.

3.9 Location based exemptions

3.9.1 In 1999, for the first item in the history of central excise the Government issued two exemption notifications aimed at development of the North-Eastern States. While the intention was laudable it has actually translated into shifting of investment to the North-East from other parts of the country. The long terms effect of the exemption, which is valid for 10 years would be to depress the excise revenues for this long period. Another fall out, on expected lines has been the demand from other states for similar exemption. So far Kutch district has been included and the day is not far when other States are also likely to be given the benefit of the exemption. The net result would be the creation of areas of exemption, which is most undesirable from the point of view of any tax administration. Such a move would seriously impact the tax to GDP ratio in the coming years.

3.9.2 It is recommended that there is a need to review the policy of granting exemption based upon location and replace it with subsidy by 2004-2005.

4. Relevant date of Notification

4.1 An important issue relating to exemption notifications, both customs and central excise is the relevant date from which the exemption would come into force. Over time , this has been
an area of dispute with some treating the date of issue as the relevant date and others the date from which it is made known to the public. Without going into the legality of the issue, it is the finding that any good tax administration must provide some advance notice to the tax payer before a change is introduced. This has its obvious advantages. In fact, at present the system is that a notification is issued on a particular day and that same day it is placed on the C.B.E.C. web site and comes into force. This is true even if the notification is issued after office hours or late at night, which is usually the case. Reportedly, this situation results in neither the departmental officials or the trade and industry knowing about the notification. As a result, there is invariably an exercise of issue of demand notices (when duty has been increased) and filing of refund claims when duty is reduced). Another fall out of the sudden introduction of the notification is that the automated clearances on the customs side give the wrong results, since the software modification does take time.

4.2 As stated, it is not reasonable to bring into force a notification from the date of its issue as this increases the work load and adversely affects the efficiency of the system. At the same time, it may not be appropriate to give too much time for the implementation of the notification as this may lead to speculation.

4.3 It is recommended that a notification should come into force from the day after the day of its issue. To illustrate, a notification dated (i.e. issued) 1st. December would come into force from 2nd December. This would require each notification to contain a suitable clause, till such time as the law is amended.

5. Zero rating exports

5.1 There is a misconception that exports are exempt form central excise duty. This is not so. Exports are chargeable to duty as any other excisable goods. However, in terms of rules 18 and 19 of the Central Excise Rules, 2002 goods can be cleared for exports either on payment of duty under claim of rebate of duty or under bond without payment of duty. Since goods sent for exports are not exempt from duty, Cenvat credit is available on the inputs and capital goods used in the manufacture of such goods.

5.2 In this regard it is seen that the international practice is to ascribe Zero rating to exports. This means that if the goods are exported, the duty payable is Zero. As the goods are technically not exempt, the benefit of Cenvat credit would continue to be

available. Zero rating of exports has the advantage that it will facilitate in eliminating all input taxation without the need for any end use based exemption. This of course has to be integrated in a scheme for refund of excise credit quickly.

5.3 It is recommended that from 1st April 2003 exports should be Zero rated.

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CHAPTER 3

CUSTOMS PROCEDURES AND TRADE FACILITATION : BASIC REFORMS

1. Overview of procedures

1.1 Custom clearance in India has so far been based on physical control where each consignment is examined and assessed to duty, a legacy, no doubt, of the strict import control regime implemented with the purpose of protecting domestic industry. High import tariffs and multiplicity of exemptions and export promotion schemes also contribute in complicating the documentation and procedures resulting in a major gap between the customs import and export procedures at home and the best international practices. The major problems associated with the customs clearance procedures with reference to international best practices are:

(i) Excessive documentation requirements;

(ii) Lack of automation and insignificant use of information technology;

(iii) Lack of transparency; unclear and unspecified import and export requirements;

(iv) Inadequate procedures; especially a lack of audit-based controls and risk-assessment techniques;

(v) Lack of modernization of, and cooperation among other governmental agencies, which thwarts efforts to deal effectively with increased trade flows;

(vi) Procedures are transaction based. Every document has to be checked, double-checked, signed and countersigned and most import and export goods are physically examined, which also breeds corruption;

(vii) Documentary inspection for all export cargo is intensive though less than in the case of imports.

(viii) In spite of computerization, the administrative philosophy remains that of a paper-based system with many opportunities for face-to-face contacts on routine matters.

1.2 In this context the Vision Document published by the C.B.E.C., in 1998, shows that trade facilitation and creating a climate for voluntary compliance have been given the same thrust as realizing revenue and combating duty evasion. Therefore it is clear that there is a need for change and attempts are also being made in this direction. C.B.E.C. has taken a number of steps to put in place procedures at par with the best international practices, as expounded in the Kyoto Convention and other international Conventions. It is particularly heartening to note that a major push is being given to EDI and 'System based appraisal'. The fact that C.B.E.C. has suo moto taken up the exercise of evolving modern and efficient procedures reflects the changed mind-set, which must necessarily lead to trade facilitation in all its facets. At the same time care should be taken to ensure that simplification is not at the cost of compliance and accountability is ensured.

1.3 On the subject of trade facilitation it is worthwhile to take a look at the Green Channel system currently in place. As seen, this is a selective approach to trade facilitation restricted to specific importers (Government, PSUs, EOU/EPZ units, approved research institutes, top 20 importers, and importers of specified goods like pulses, sulphur etc.) at specific ports, Air cargo complexes (at Kandla, Vishakhapatnam, Cochin, Mumbai, Nhava-Sheva, Kolkata, Chennai, Bangalore, Delhi, Sahar) and ICD at Tughlakabad. Further, the system is product specific and does not apply to about 20 items including variety of engineering products, electronic items, plastics, textiles fibres, yarns, fabrics, miscellaneous item like dry fruits, marble, ash/dross of zinc etc. Goods requiring an import licence or execution of a Bond/Bank guarantee are also kept out. To obtain the facility the eligible importer gets registered

with the concerned Customs House. Basically, the normal appraisement procedure is followed except that there is no physical examination of goods unless there are specific doubts about correctness of declaration. The scheme envisages post clearance audit within 48 hours of receipt of Bill of Entry, for which traders are not to dispose of the goods within 3 days including transit time.

1.4 Simply put the Green Channel scheme did not take off in view of its restrictive approach to trade facilitation and complexities which rule out majority of importers. Evidently, the focus on selectivity was mis-directed. Therefore, the present Green Channel has failed to effectively address the twin issues of trade facilitation and ensuring compliance. As a result our clearance time at ports/airports is still far from the best international practices. Delays increase not only the cost of compliance, the other adverse effects are corruption, congestion in the ports etc. Complex assessment procedures, insistence upon bonds and securities are some of the other problems associated with the customs. Thus, there is an urgent need to re-examine the present procedures and identify the critical areas, which may be improved so that we have in place a world class customs administration.

1.5 The role of customs is both of a facilitator and a regulator. Whereas it must facilitate the honest importer and exporter it has also to ensure the laws of the country are applied strictly. Therefore, there has to be a very fine balancing. While the procedures must provide for expeditious clearance of the goods so that international trade is not delayed, it must also provide for the necessary in-built alert signals to detect cases of infringements of the laws. At the same time it is no longer practical or desirable to develop systems based upon physical checks on consignment to consignment basis. The sheer volume of import and export would not permit this. Naturally there has to be selectivity in checks. There are basically two ways to be selective. Firstly, identify the risk free transactions either in terms of class of importer or exporter or in terms of the nature of goods concerned or both and such identified transactions would either not be subjected to checks or to low level checks on random basis. This class would have the benefit of special procedures whereas all other transactions would be subjected to consignment check and normal procedures would apply. The second method is not to create a special class of trusted or risk free transactions but to treat all at par. This system provides uniformity of procedures for all transactions based upon trust and works on the assumption that risk is uniformly spread. Therefore, in this system modern and efficient procedures are made available to all. At the same time the system provides for confirmation of declarations through as system of risk assessment and post clearance audit. The risk criteria are internalized in the automated system which would pick up transactions for examination on random or advise on selection for purposes of post clearance audit. The net result is that all importers and exporters are treated alike and it the luck of the draw (system based) which will determine which particular transaction would get picked up for examination or post clearance checks. Of course, customs has the undeniable right to intervention on the basis of specific intelligence and information.

1.6 After careful examination of the international procedures, as enunciated in the Kyoto and other Conventions and also the Green Channel system in place in the country it is the view that selectivity does not work and is also not desirable. Selectivity leads to creation of classes and formation of pressure groups. Furthermore, so long as general procedures are not improved (in terms of filing of manifest, availability of goods etc.) no special benefit is available to the selected class. Accordingly, taking into account all factors it is the view that the bottom line in regard to customs procedures is that these must be based upon trust, which presupposes absence of selectivity. If this is done there would be no routine examination of goods and examination, when warranted, would be either on basis of intelligence or on basis of Risk Assessment criteria. At the same time compliance issues are addressed by adopting modern tools of risk profiling and risk management based upon EDI for pre-clearance and post clearance checks. Such tools help in evolving transparent customs clearance procedures applied uniformly thereby increasing the level of facilitation and satisfaction while also obtaining an increased level of control. However, such a system would deliver results provided there are efficient backward and forward linkage with the other agencies concerned with the clearance of the goods. Customs can not work in isolation and the entire (multi-agency) machinery has to work in a finely tuned and cohesive manner for the ultimate benefit of the importer and exporter.

1.7 Modern best practice calls for a systems approach that relies on self-compliance (through the maintenance of business records by tax payers), risk analysis and management (development of profiles of risky transactions), and supported by periodic post audits of records. This approach reduces delays for legitimate transactions while allowing full scrutiny of high-risk transactions. In

this background, systemic changes are recommended. As earlier stated, it is appreciated that the C. B.E.C. is also working in the same general direction.

2. Trust Based System (TBS) : Universal Green Channel

(i) **Customs clearance procedures should be based upon trust and be uniformly applied to all importers and exporters and all goods.**

(ii) **Expand EDI network to all ports/ airports and to include all processes in the automation programme by 1st January 2004** – For this C.B.E.C. may make a station–wise chart and identify the requirement of each station in terms of resources required. A dedicated team should be set up to oversee the timely implementation of this work and where warranted customs should not hesitate to outsource the work. **In this direction, one major port and one airport should be made fully EDI operational by 1st April 2003.**

(iii) **The verification of declaration through pre-clearances examination, where necessary, should be based upon Risk Assessment techniques -** As a policy there should be no routine examination of the goods. Examination, where necessary, would be done on the basis of an alert by the system based on risk profiling and risk assessment techniques. Some illustrative risk areas for imported goods could be very high import duty (demerit goods), imports from a country other than the country of manufacture, related party transactions and the like. Detailed profiles of all importers/ exporters are also an input. Importantly, it is the system which would decide the selection of goods (for examination).

(iv) **Post Clearance Audit –** This would be increasingly used to confirm the declarations made at the time of clearance of the goods through customs. This mechanism would allow the clearance of a number of transactions under systems appraisal. This audit could be combined with multidisciplinary audit (say, including central excise audit) at the importers premises.

(v) **Introducing a system of self-assessment of Bill of Entry –** Just as in central excise the importer may be allowed to assess the Bill of Entry and pay the duty thereon. **The system would confirm the assessment and after examination of the goods, if warranted, give a clearance. In the event an additional duty liability is detected the same would be discharged before clearance.**

(vi) **Filing of a period Bill of Entry - Instead of transaction based Bills of Entry the importers importing same goods over a period of time could be permitted to file a period Bill of Entry. However, duty would be paid before clearance of the goods for those availing this facility. This would reduce the transaction cost associated with individual assessments**.

(vii) **Release on minimum documentation:** For certain importers of good track record of compliance, a release order could be given on the basis of certain specified minimum information (not documents) to be provided before the import. This minimum information would be name of consignee, name of consignor, country of origin, total assessable value, total quantity, description and H.S.Code. The goods would be released with or without examination as the case may be and on payment of duty. The assessment could be done subsequently after receipt of all other documents within a specified time period.

(viii) **Enhanced Systems Appraisal**: System Appraisal i.e. the process of automated verification of import declaration based on systems/ directory information to determine duty liability without human intervention would be progressively extended. Compliance would be ensured through Risk Management techniques.

(ix) **Release of goods in offence cases** - Even where an offence has been detected, the Customs should release the goods before adjudication provided the goods are not liable to absolute confiscation. In this case the importer/ exporter would pay the duties and furnishes security to ensure collection of any additional duty or payment of penalty.

(x) **Amendments to Bill of Entry –** Amendment of documents, if required, (other than having revenue impact) should be settled at the service centre itself rather than first being sent to the concerned senior officer for 'No Objection'**.** This would speed up processing and expedite the clearances.

(xi) **On-line Filing of Documents** – Filing of electronic declarations on internet etc. for release of import/export goods from any Customs location should be encouraged.

(xii) **Storage of import goods -** Section 45 of the Customs Act, 1962 lays down that all imported goods unloaded in a Customs area shall remain under the charge of a Custodian approved by the Commissioner of Customs till such time they are cleared for home consumption/ warehoused or transshipped. It is the finding that one of the major reasons for delay clearance of the goods is the multiplicity of handling between the carrier and the custodian. This also results in demurrage and increase in transaction costs. In the event the import cargo is directly transferred from the vessels/ aircrafts to warehouses (owned by carriers) set up in the Port/ Airport the delays would come down. Accordingly, it is recommended that **the custodians (IAAI/Port Trust Authorities etc.) should encourage establishment of warehouses by shipping airlines/airlines/couriers/ freight forwarders and consolidators within the port/airport for reducing dwell time.**

(xiii) **Filing of Import Manifest -** Internationally, the practice appears to be to allow the filing of advance Import General Manifest before the arrival of the vessel/aircraft. Also other forwarders file cargo declarations pertaining to their own containers directly with the Customs. It is considered essential for effecting quicker clearances that the Manifest is made available to customs without delay, and in fact before the vessel arrives/flight lands. Accordingly, **the following recommendations are made :**

(xiv) **A complete Import general manifest (IGM) with house level details must be filed with the Customs before the arrival of the vessel/ aircraft.**

(xv) **The carrier/ steamer agents should file the IGM at Master level and the consol/ forwarding/ break-bulk agents should file the House level details.**

(xvi) **The carrier/ steamer agents shall alone be responsible for correct and proper filing of complete IGM (including House level details) with the Customs.**

(xvii) **Permanent Trade Facilitation Committee - Constitution of multi-agency** framework at ports/airports (port trust, shipping companies, custodian, etc.) is a necessary requirement for a long term solution to the day to day problems associated with the clearance of import and export goods. This is since customs clearance procedures are not the sole cause of delay in the import and export of goods - inefficient port and airport logistics play an equally important role. Since delay by any one agency is invariably viewed as a delay in clearance through customs, the multi agency framework should be placed under Commissioner of Customs. Accordingly, **it is recommended that a Permanent Trade Facilitation Committee should be constituted at each Port/airport/ICD/CFS comprising senior representatives of all agencies including Custom House Agents (CHAs) under the chairmanship of the Commissioner of Customs**. The Committee should meet once a month to resolve all clearance related issues. **A High level Inter-Ministerial Committee may also be set up under the Chairmanship of Chairman, CBEC to**

resolve inter-agency issues to ensure a steady progress of clearance of import and export goods with reference to international norms.

(xviii) **Customs should lay down a time limit in the law within which an import or an export document shall be processed**. This would bind the department to certain performance standards and enhance confidence of the importer/exporter.

(xix) **Increased reliance on Pre-shipment Inspections –** At times the clearance of goods is held up on account of inspections from point of view of health and safety considerations, such as in case of food stuff. In such cases increased reliance on certification prior to shipment by internationally recognized inspection firms, a common practice internationally would considerably speed up the pace of clearance.

3. Other measures for improved customs administration

(i) **Availability of customs officers** - Reportedly exports suffer due to the non-availability of custom clearance facility round the clock. This is particularly so in respect of jewellery items, a major export item of the country. Accordingly, just as the customs is open 24 hours round the year for passenger clearance some arrangements should be made for custom clearance of export jewellery on holidays. Likewise some arrangement should be made to collect cess, where applicable, on holidays so that exports are not held up. This arrangement could be made at the International airports.

(ii) **The Intelligence, Investigation and Audit Sections of the Custom House may be suitably strengthened –** This is necessitated on account of the recommendation to increase the use of risk assessment techniques in customs clearance procedures.

(iii) **Merchant overtime fees to be removed for all activities done in Customs area** – on principle once the goods enter the customs area any activity therein should be done during the office hours. In any case even if any activity is required to done after office hours it should be provided as a facility to the trade and not be subjected to payment of overtime. This would require suitable amendment to the Customs (Fees for Rendering Services By Customs Officers) Regulations, 1998.

(iv) **Export valuation rules to be framed** – Customs Valuation Rules, 1988 apply only to valuation of imported goods. For valuation of export goods, there are no valuation rules. Consequently, each Custom House resorts to valuation of export goods in its own way and this results in non-uniformity and subjectivity, which in turn gives rise to disputes and litigation in many occasions. In order to obviate this difficulty there is an need to have a set of Valuation rules for determination of value of goods entered for export. A clear cut set of rules on export valuation will bring down the number of disputes on the area of export valuation of the goods. This would also ensure transparency and certainty in export valuation matters.

(v) **Customs to allow abandonment of warehoused goods -** Presently, under the Customs laws, imported goods which have been warehoused are not allowed to be abandoned. This right should be available to the importers, as is the case in respect of other imported goods.

(vi) **Customs duty payment may be through cheques -** As a safeguard we could insist upon PAN identifier. It is seen that similar practice is followed in the Income Tax side.

(vii) **Confiscation provisions in respect of export goods -** Section 113 of the Customs Act, 1962 deals with the confiscation of export goods on account of mis-declaration, only if the goods are dutiable or prohibited or entered for

export under claim of Drawback. Thus, when the goods under export are neither dutiable nor covered by Drawback and there is mis-declaration no action can be taken under the said section. Examples are exports under DEPB, DEEC, or other export promotion schemes or when the goods are covered by a White Shipping Bills i.e. where no benefit is claimed. Accordingly, it appears necessary that there should be no legal lacunae and customs should be empowered to take action even in case of such exports. For this suitable amendment would be necessary to the said section.

(viii) **Acceptance of Export Obligation Discharge Certificate (EODC) -** EODC Certificates invariably are issued by DGFT without affixing "seal" which is, however, insisted upon by Customs while accepting EODC, which causes delays. It is recommended that ideally DGFT and customs should develop an EDI link so that messages can be exchanged without loss of time. Even otherwise customs should accept the EODC produced by the exporter. In case of doubt the post-facto verification may be done from DGFT.

(ix) **Customs officers may be empowered to enforce IPR –** custom officers are not empowered to enforce the law on Intellectual Property Rights which is not in keeping with the international practice. No specific reasons could be ascertained for this deviation. At present, the IPR violations are to be first determined by the Registrar of Copyrights or Registrar of Trade and Merchandise Marks, and thereafter a notification is required to be issued under Section 11 of the Customs Act, 1962 whereupon the goods become liable to action (under the Customs Act). However, under TRIPS the border enforcement requires a mechanism such that a holder of IPR informs customs of a violation and requests it to suspend clearance in respect of counterfeit or pirated goods. Present law does not provide such an authority to customs. Incidentally, the same goods may also be liable to action under TRIPS as well as Customs provisions and it is desirable that a common authority viz. customs adjudicate the matter. Accordingly, it is recommended that the customs should be authorized to enforce IPR, by a suitable amendment to the Trade and Merchandise Marks Act and the Copyrights Act.

4. Custom House Agents (CHAs)

4.1 Customs House Agent's Licensing Regulations, 1984 govern the functioning of the Customs House Agents. Whereas the CHAs provide an important role in facilitating both department and the importing and exporting community, at times complaints are also received against them. Further, it is seen that though the Commissioner of Customs is required to call for fresh applications each year this is not done regularly. Moreover there is a complex procedure for obtaining a CHA license and new entry becomes difficult. It is also found that a CHA registered for operation at one port can not easily do his work at other places. Finally, the charges for customs clearance work by CHAs were fixed long back in 1989 and since then, cost of all services, such as, documentation, warehousing and transport, etc. have gone up manifold. In fact, cases of double billing by CHAs have been noticed where they maintain one set of books in accordance with the prescribed rates while in reality, they had charged their clients at higher rates. Thus, there is a need to identify the areas of improvement so that the CHA community can perform in a professional manner for the benefit of the trade and industry. In this direction **the following recommendations are made** :

(i) CHAs should be licensed through an All India entrance examination to be conducted by Directorate General of Inspection. C.B.E.C. once a year at Delhi and at its Zonal Units for licensing of CHAs.

(ii) CHAs once licensed should be allowed to operate at any Custom House/Port/Inland Container Depot anywhere in the country.

(iii) Once a CHA licence is issued it should be valid for all time unless the CHA comes to adverse notice of Customs on account of misconduct, delay, etc. for which penal provisions, including suspension/revocation of Licence may be applicable.

(iv) Rates for CHA work should be determined by market forces, which will induce a healthy competition amongst CHAs resulting in competitive rates and better service and accountability towards the clients.

(v) There should be a review of the technical qualifications of the CHAs to include knowledge of computer, Prevention of Corruption Act, etc.

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CHAPTER 4

CENTRAL EXCISE PROCEDURAL SIMPLIFICATION

1. Introduction

1.1 Being the single largest contributor to the tax revenues of the Government, central excise revenues and administration have a critical role in the Indian economy. Naturally, any set back or slow down in central excise revenue mobilization adversely impacts economic planning. Therefore, it is important to devise a suitable tax administration which facilitates voluntary compliance by the tax payer and leads to the collection of revenue at minimum cost.

1.2 In this regard a number of steps have been taken in the recent past to improve central excise administration. Some of these are :

(i) With exception of cigarettes, self assessment of Central Excise duty by the manufacturer without reference to or interaction with the department has become the norm of Central Excise Administration.

(ii) Central Excise rules earlier numbering over 234 have been considerably simplified and replaced by new set of Central Excise Rules, wherein the number of rules has been reduced to only 72.

(iii) Payment of duty has been simplified with the introduction of a fortnightly payment system. As a measure of further relaxation the units in the small scale sector are required to pay duty on monthly basis.

(iv) Documentation is reduced to the minimum and largely reliance is placed upon the tax payers own records. Further, the filing of statutory return with the department has been made less rigorous by increasing the periodicity. Tax payers are required to file a simple monthly return and those in the small scale sector have to furnish the return only on a quarterly basis.

(v) A statutory body has been set up for giving Advance Rulings on matters of classification and valuation of goods and applicability of notifications with the objective of introducing uniformity and certainty in Central Excise Administration.

(vi) Computerisation has been initiated on a large scale in the and the emphasis is on effective monitoring, analysis of data base, and use of Information Technology to carry out day to day functions.

(vii) New PAN based excise registration has been adopted with the objective of moving towards on-line registration to facilitate the tax payer.

(viii) Manufacturer exporters have been facilitated by dispensing with the requirement of bonds and security. Further a simplified procedure has been introduced for self-credit of the duty on the goods exported. In respect of merchant exporters also the requirement of security for exports is not insisted upon.

(ix) Disputes with the tax payer have been sought to be reduced with the introduction of new valuation; rules and extension of the scheme of assessment based on Maximum Retail Price.

(x) To ensure speedy disposal of cases pending adjudication and in appeal a time period for deciding the cases has been prescribed in the law.

(xi) Selective Audit based upon risk assessment has been introduced.

(xii) For greater facilitation the administration has been brought closer to the tax payer by an increase in the number of Central Excise Chief Commissioners from 10 to 23, Commissioners from 61 to 92 and Commissioners of Central Excise (Appeals) from 18 to 71.

1.3 However, it is clear that while the direction is correct, the steps taken so far have not materially altered the general perception that the central excise administration is not tax payer friendly and the systems and procedures are even now far too complex. Therefore, much more need to be done. Importantly, to make a visible impact it is necessary to make fundamental changes without further loss of time. Accordingly, based upon the principles formulated by the Task Force the following recommendations are aimed at comprehensively changing the essence of central excise administration with the twin objective of tax payer facilitation and encouraging compliance for increased revenue.

2. Manufacture

2.1 Increasing scope of central excise levy

2.1.1 In terms of the Constitution provisions [Seventh Schedule, List 1, Entry 84] central excise duty is levied on all articles produced or manufactured (except alcohol for human consumption etc.). Interestingly, such a levy on act of 'manufacture' is unique in the sphere of indirect tax administration world over. What we have instead is the rise of Value Added Tax (VAT), with over 120 countries* adopting one or the other variant of this tax. This evidences the fact that efficiency of VAT is unquestioned. Needless to state the globalisation of the Indian economy demands that the question of acceptance of VAT as a uniform National level tax is settled at the earliest in its favour.

2.1.2 In the Indian context, as seen, central excise duty is levied on the manufacture of goods and 'manufacture' has been defined under Section 2(f) of the Central Excise Act, 1944. However, apart from this definition there are a number of deeming provisions under various Chapter Notes of the Central Excise Tariff Act, 1985, which also define 'manufacture'. Over the time Government has been tinkering with the said Chapter Notes in order to expand the scope of the term 'manufacture', particularly to include activities such as packing, labeling and re-labeling in its ambit. As a result more and more activities, which basically are not 'manufacture' in the strict sense of the word but do add value to the product are being covered under the ambit of the central excise levy.

2.1.3 It appears that the traditional approach in defining the taxable event i.e. 'manufacture' has largely lost relevance given the fast changing technology and new emerging markets. In the final analysis what is material in the world of business is whether an activity has added value or not. Accordingly, it is the value addition which must be tapped for purposes of taxation. In this background, the present definition of manufacture resting basically upon the act of 'bringing into existence an article which has a different name, character and use' appears woefully inadequate. A modern tax system requires focus upon value addition, and the central excise must also eventually move towards this concept, which will also gradually pave way towards VAT. Thus, central excise levy can no longer continue with the concept of tax based upon factum of production or manufacture, as at present. Besides, there are a number of disputes today whether a particular activity amounts to manufacture or not.

2.1.4 The implication is that the future of central excise lies in taxing any activity which adds value to the product. Of course, the idea is not to encroach upon the territory of sales tax. In this regard it is to be appreciated that even today the central excise levy is basically on the value addition but the critical difference is that the tax is levied only if manufacture takes place. What is now being proposed is that the tax would be levied whenever value addition takes place on account of some processing of the manufactured goods. In other words, the concept of production or manufacture would require a re-look and this may have constitutional and legal implications. This has the following advantages :

(i) Concept of value addition is easy to understand and implement. It does not suffer from interpretation problems associated with the definition of 'manufacture'.

(ii) It widens the tax base and would positively impact the tax to GDP ratio.

(iii) Value addition in contrast to 'manufacture' ensures against tax evasion and avoidance through sub-contracting or segregation of the value addition activities outside the manufacturing premises.

(iv) Basing central excise levy on value addition is a step closer to the National VAT.

(v) Uncertainty in the minds of tax payers will be removed.

2.1.5 Accordingly, **it is recommended that through immediate suitable legislative changes, the levy of central excise should be progressively based upon value addition**. **Since concept of value addition would apply only to the processing stage (of manufactured goods) it would be ensured that the area of Sales Tax is not entered into and possibility of double taxation is avoided.**

2.2 Powers to notify act of 'Manufacture'

2.2.1 Charge of central excise levy is attracted when goods are produced or manufactured. Thus, the issue when manufacture is said to have taken place has oft been the subject matter of legal debates and judicial decisions. Simply put excisability of particular goods would depend upon the fact of their manufacture and marketability. The matter stands largely settled now and except for stray cases there is certainty in the minds of both tax administrators and the tax payer. In this background concern has been voiced in many quarters about the recent legislative amendments [section 2 (f) of the Central Excise Act, 1944] empowering the executive to rule upon what is manufacture and that the ruling would have retrospective effect over the past one year. In other words once the executive clarifies in a particular case that manufacture has taken place, by virtue of this provision it would be in a position to demand the duty from the tax payer on all production and clearances made over the past one year, which would be a heavy burden. The trade and industry is concerned that such power may be misused.

2.2.2 On a careful perusal of the said provision it is noted that this provision has been introduced only recently and has not been invoked so far. It appears that with the issue of what is manufacture having been judicially settled over the time there may in fact be no occasion to invoke this power. Moreover, there is a positive aspect, which is that should the power be exercised it would ensure uniformity of practice all over the country. Otherwise it is often the case that an issue is raised and decided against one tax payer whereas his competitors in other Commissionerates escape the proceedings. It is expected that these considerations would have weighed with the legislature while empowering the executive. At the same time due importance must be given to certainty in tax matters which boosts the confidence of the tax payer and is necessary for a higher degree of compliance.

2.2.3 It is recommended that the said provision should not be used routinely. Moreover, a suitable amendment is necessary so that it is applied prospectively. It may however be noted that this provision will be redundant once it is decided to charge duty on value addition , independent of which a particular process amounts to manufacture or not.

2.3 Expanding definition of 'Manufacture'

2.3.1 Assessment based on the **Maximum Retail Price** (MRP) of goods covered under the Standards of Weights and Measures Act, 1976 and provided for under Section 4A of the Central Excise Act, 1944, has been found to be very effective. It has reduced

disputes and brought about certainty in assessment. However, the Standards of Weights and Measures Act provides for certain relaxation of the condition of affixation of MRP on goods such as when the goods are sold in bulk quantities for actual industrial use. It is the apprehension that such relation may be used to avoid central excise duty. For instance, a manufacturer may clear the goods from the factory in bulk and get it re-packed outside into retail packages.

2.3.2 In order to prevent any misuse of the MRP provisions, **it is recommended that the wherever MRP based levy is applied, the act of repacking into retail containers or affixation of MRP on any goods covered under Section 4A may be deemed to be amounting to manufacture**.

3. ASSESSMENT

3.1 Confirmation of assessment

3.1.1 Correct assessment of duty is critical to the central excise administration. This entails correct determination of classification, rate of duty and valuation of the excisable goods. Presently we have a system of self-assessment whereby the tax payer determines his duty liability and pays the same suo moto. He later files a return with the Department indicating the production and clearances and duty paid.

3.1.2 It is the perception that the introduction of self-assessment in Central Excise has reduced responsibility of the Central Excise officers in ensuring the correctness of assessment including correct availment of Cenvat credit. By and large the officers feel that since the tax payer is responsible for self-assessment of the return their own responsibility is reduced to mere confirmation of mathematical accuracy. This is not correct. The C.B.E.C. had clearly laid down the responsibilities of the assessing officers right up to the level of Addl. Commissioner in ensuring correctness of assessment and availment of Cenvat credit by the tax payer. The instructions also empower the officers to call for any document to confirm the assessment of the tax payer. However, it is a finding that this is not being done properly, furthermore there is an absence of a monitoring mechanism and as a result proper checks are not carried out. Infact, the assessing officers take the stand that with the introduction of self assessment and the non-submission of invoices with monthly returns the responsibility of finding out short levy is on the Audit or Anti-Evasion.

3.1.3 It is the view that assessment should be the primary function of the Central Excise officers. Self assessment on the part of the tax payer is only a facility and cannot and must not be treated as a dilution of the statutory responsibility of the central excise officers in ensuring correctness of duty payment. No doubt Audit and Anti-Evasion have their roles to play but assessment or confirmation of assessment should remain the primary responsibility of the Central Excise officers.

3.1.4 It is recommended that the officers should be make responsible for assessments of ER 1 returns, and for this purpose clear cut instructions should be issued. Some monetary limit may be fixed for confirmation of assessment by each level of Central Excise officer upto Additional Commissioner.

3.2 Valuation

3.2.1 Valuation of the excisable goods is an important exercise as the duty charged is mostly on ad-valorem basis. Over time, there have been commendable efforts to simplify the valuation norms for levy of central excise duty. The amendments to Section 4 have indeed brought about much needed clarity and certainty to the principles of valuation. Moreover the increasing use of MRP based assessment has increased certainty and is a welcome step. But, the change-over to new rules and the introduction of new norms and the increasing usage of MRP-based levy, may well lead to a new era of disputes, and, therefore, it will be in the interest of both, the Department and the industry, to address these issues proactively. It is appreciated that this is indeed what is being done, such as the recent clarification on matter of treatment of Sales Tax.

3.2.2 At present there are more than one method of valuation applied to the excisable goods, Transaction value, Tariff value and Value based upon Maximum Retail Sale Price (MRP). Transaction value is the most commonly adopted method. By and large no fresh issues have been thrown up in this area as a result of switching over to this method of valuation in July, 2001, from the earlier practiced method of 'normal price'. The transaction value method is tried and adopted the world over and there can be no two views on its acceptance in principle. However, it is noted that there are certain areas which require a clarification lest we enter into fresh disputes on valuation. Primarily these relate to cost of transport, margin of profit and determination of abatement under MRP based assessment etc.

3.3 Cost of Production

3.3.1 The answer to the question "what would constitute cost of production", which is necessary to determine in order to value goods under rule 8 of the Central Excise Valuation Rules, 2000 is not very clear. In many cases, excise audit parties are directing the assessee to add advertising, marketing, Head Office costs, etc. It is the view of the trade that only the raw material costs, packaging material cost, energy and services cost and factory overheads should form part of the cost of production. Head Office costs are in the nature of Corporate costs which have no direct bearing on the intermediate goods cleared for captive consumption. Further, advertising, sales and distribution costs are also not relevant in this case as such intermediate products are neither advertised nor sold in the trade. The sales and distribution expenses relate to finished goods marketed and sold and, therefore, hold no relevance to the intermediate goods.

3.3.2 Since different views are being taken by the field formation as to what constitutes cost of production, it would only be appropriate that the C.B.E.C. issues clear guidelines on the aspect of valuation of intermediate goods used captively to avoid disputes in the matter. It is understood that such guidelines (AS4) are being worked out by the Institute of Chartered Accountants.

3.3.3 It is recommended that the guidelines on determination of cost of production should be issued at the earliest and till such time all disputes be kept pending.

3.4 Margin of Profit

3.4.1 Under the Central Excise Valuation Rules, 2000, when the goods have been consumed captively by the assessee in the production or manufacturing of other articles or these are sold to the related person for his captive consumption, the duty is to be charged on 115% of cost of production as assessable value. It is the view of the trade that 115% is an abnormal margin as such profits are an exception. However, in the overall interest of ensuring certainty in taxation it was conceded that rather than individual determination of the profit margin, its standardization in the law is a better step. At the same time it was felt that since this is largely going to be a revenue neutral exercise as the recipient unit can claim CENVAT credit, it would be better to review the margin and reduce it. This step would positively impact the cash flow and benefit the industry. There is force in this argument.

3.4.2 It is recommended that the 115% should be brought down to 105%. Moreover, there should be a moratorium on this figure, so that there is certainty in taxation.

3.5 MRP based value

3.5.1 It is observed that notwithstanding certain questions on the rationale for levy of excise duty on the basis of a price over which the manufacturer has no control the switch over to MRP based value and the increasing use of this method has been welcomed by the trade and industry. Interestingly, it marks a change in the mindset of the tax administrators who were traditionally not looking beyond the factory gate for determining the value of the excisable goods. MRP based levy has an intrinsic advantage in ensuring certainty of determination and reduces disputes. Therefore, this is a step in the right direction.

3.5.2 Accordingly**, it is recommended that system of MRP based valuation must be expanded. However, in order to improve the usage of this mechanism of assessment, certain issues relating to the method of determining the abatement and secondly its nexus with the SWMA require resolution.**

3.6 Abatement

3.6.1 The Government, by issue of a notification, announces the percentage of abatement to be allowed from MRP in order to arrive at the assessable value for charging excise duty. Two inter-related issues are raised in this regard. Firstly, the determination of abatement is not a transparent exercise. Secondly, the extent of abatement does not take into account certain standard deductions and the changes in rates of various levies.

3.6.2 Taking up the matter of extent of abatement first, it is reported that the present quantum of abatement just takes care of the levies of excise duty, sales tax, octroi, etc. The other permissible deductions under erstwhile Section 4 viz. the delivery charges, secondary packing, etc. have not been considered. Further, the quantum of abatement which had been fixed at the time of bringing the commodities under Section 4A has not taken into account the subsequent developments such as the adoption of uniform sales tax rates by the State Governments, which has resulted in extra burden ranging from 15 to 20 per cent. As seen, the extent of abatement is largely a matter of fact. It should get resolved once the system of fixing abatement is improved, which is now taken up.

3.6.3 Secondly, there is a view that fixing of abatement is not a transparent exercise. No doubt the abatement is done on basis of industry averaging but the manner of its determination leaves doubts in the minds of the affected industry regarding its correctness. It is the view that Government policies particularly in matters of taxation must not only be fair but should be transparently fair to all. Hence, wider consultation is required and the industry should be fully associated in the exercise.

3.6.4 It is recommended that :

(i) **A 'Permanent Committee on MRP Abatement' should be formed under Member (Budget), C.B.E.C. which should include representatives of all Chambers of Trade and Industry Associations, to meet on annual basis (or more often, if required) to recommend the extent of abatement for the items brought under MRP**. The Committee may co-opt experts or industry specific Associations also on need basis. This step would restore the confidence of the industry and the participative determination of abatement would remove the allegation of arbitrariness.

(ii) The Permanent Committee on MRP Abatement should be formed immediately so that its recommendations can be taken note of for the Budget 2003-04.

3.7 Application of Standards of Weights and Measures Act, 1976

3.7.1 Section 4 A of the Central Excise Act, 1944 provides for valuation of excisable goods with reference to their retail sale price. Accordingly, as provided herein, the Central Government by notification specifies the goods in relation to which it is required under the Standards of Weights and Measures Act, 1976 or its rules to declare on the packet the retail sale price. On issue of such notification the said goods are subjected to valuation with reference to their retail sale price.

3.7.2 In this regard, it is reported that the reference to the Standards of Weights and Measures Act, 1976, has lead to complications and disputes. At times, even though a particular item is specified by notification the tax payer points to the Standards of Weights and Measures Act, 1976, as providing an exemption from the declaration of retail sale price. In fact, there are quite a few exemptions under this Act, and the Central Excise officers are not familiar which creates doubts and raises disputes. It is the view that the cross reference to this legislation has not resulted in any advantage and, on the contrary has complicated matters. This is not to state that the provisions of the said legislation should not be applied. It is, in fact, necessary that an item should be covered by the provisions of this legislation, which requires the affixing of retail sale price before it is notified under Section 4A of the Central Excise Act. However, there is a better methodology than making a cross reference to this legislation in the Central Excise Act.

3.7.3 It is recommended that Section 4A of the Central Excise Act may be amended to delete reference to the Standards of Weights and Measures Act, 1976. At the same time, the Central Government should internally refer to this Act, while specifying the items for valuation based on retail sale price. Further, the Notification may itself indicate the conditions under which it shall not apply to a particular item even though specified.

4. Cenvat

4.1 Removing distinction between inputs an capital goods

4.1.1 At present, the Cenvat credit is admissible in respect of inputs which are brought into a factory "for use in or in relation to the manufacture of the final products". In contrast the Cenvat credit is admissible in respect of capital goods when these are "used in the factory of the manufacturer". This distinction is a cause of many disputes and litigation.

4.1.2 No doubt the levy of central excise duty is on manufacture. However, there is no reason why the Cenvat credit must also be linked to the act of manufacture. The term manufacture is strictly interpreted and many legitimate business activities such as the use of a computer for calculation of duty may not get covered even though the said goods are indeed required to support the manufacturing activity. Actually, Cenvat credit can be viewed as an exemption and to remove all controversies, we need to allow the input credit on the basis of "use in the factory" rather than on the basis of "use in manufacture of final products". Incidentally, the grant of Cenvat credit on capital goods by using the yardstick of factory of the manufacturer has not led to any disputes and is time tested.

4.1.3 At the same time its is possible that there may be a possibility of tax payers taking credit on items such as building materials, airconditioners used in guest houses etc, within the factory premises etc. Accordingly, this needs to be taken care of.

4.1.4 It is recommended that the Cenvat Credit Rules, 2002 should be amended to abolish the distinction between capital goods and inputs and allow credit on all inputs brought into the factory except for those figuring in a small negative list, such as office furniture, motor vehicles, MS, HSD, etc.

4.2 Cenvat credit on capital goods

4.2.1 At present, when capital goods are procured the recipient manufacturer is entitled to take 50% of the duty paid thereon as Cenvat credit in the year of their procurement. The balance 50% is availed the next year provided the goods remain in the premises. There is, however, a relaxation in respect of identified components of capital goods on which the entire credit can be taken in the first year itself.

4.2.2 A careful examination of the said provision reveals that this could only have been a measure to stagger the Cenvat credit so that the heavy inflow does not disturb the duty payable by the unit. For instance, in case of a new investment or a new factory the Cenvat credit on the capital goods may be so large that the duty payable by the unit in cash i.e. PLA would be negligible or even nil as the entire duty can be paid through the debit of the accumulated Cenvat credit. Thus, the measure is basically an artificial method to have positive revenue. It is a moot point that even payment of duty through Cenvat credit is nothing but a payment of revenue, though for reasons unknown it is not considered so by the authorities. It is the view that such artificial measures go against the basic philosophy of Cenvat credit scheme. Any person should be entitled to full Cenvat credit of the duty paid so long as the items in question qualify for the credit.

4.2.3 It is recommended that the Cenvat Credit Rules, 2002 should be amended to allow full credit of the duty paid on the capital goods immediately on receipt, as in the case of inputs.

4.3 Cenvat credit to be allowed despite technical or procedural violations

4.3.1 Reportedly a large number of Cenvat disputes arise on account of technical or procedural violations or infringements. In such cases it is not in dispute that the said inputs are duty paid, have been received by the claimant for use in the manufacture of the final products, and the final products are dutiable. In the event it appears that while fulfillment of procedural conditions is important the substantive claim of the tax payer should not be denied. Where merited, penalty proceeding may be in order to ensure compliance of the procedures. Accordingly, it is necessary that a clear statement should be made that the procedural violations are not punished in terms of denial of substantive benefits so long there is no revenue loss.

4.3.2 It is recommended that a suitable provision should allow Deputy/ Assistant Commissioner to condone technical lapses/ infirmities while allowing Cenvat credit.

4.4 Credit of Duty on Goods Returned to the Factory

4.4.1 Rule 16 (1) of Central Excise Rules provides for taking CENVAT credit on returned goods. Sub-Rule (2) provides for payment of an amount equal to the CENVAT credit taken under Sub-Rule (1), if the process carried out on the returned goods does not amount to manufacture. In this context, it is reported that there is no provision or clarification for the recipient of the said goods to take credit of the said amount on receipt of the goods.

4.4.2 It is recommended that an Explanation may be inserted in rule 16 to the effect that the amount paid on removal of returned goods can be taken as Cenvat credit in the hands of the recipients.

4.5 Levy of duty on scrap arising out of dismantled/ broken capital goods.

4.5.1 The Cenvat Credit Rules, 2002 provide that when inputs or capital goods are cleared as such then the manufacturer shall pay an amount equal to the duty of excise which is leviable on the said goods. However, in case capital goods are broken up or dismantled and then removed no duty is being charged. This is in view of the CEGAT orders that no manufacturing activity has taken place on account of dismantling of capital goods. Further, it can also not be said that the capital goods are being removed as such. It is the view that the absence of a provision to charge duty is liable to be misused.

4.5.2 It is recommended that a specific provision may be introduced to charge duty on the dismantled capital goods when removed from the factory.

4.6 Review of grant of Cenvat credit on deemed basis

4.6.1 Rule 11 of the Cenvat Credit Rules, 2002, provide that the Central Government may issue a notification declaring the inputs on which Excise duty or Additional Customs duty shall be deemed to have been paid at the specified rate or equivalent to such amount as may be specified and Cenvat credit of the same would be allowed. Accordingly, a number of notifications have been issued under the authority of this rule indicating the deemed amount of duty which can be availed as Cenvat credit. These notifications are basically for inputs such as yarn used in the manufacture of fabrics and for fabrics used in the manufacture of specified articles of apparel and clothing accessories.

4.6.2 It is the view that as a policy Cenvat credit should be available on actual basis. No doubt, deemed credit appears attractive as it reduces the documentation since evidence of payment of duty need not be insisted upon. However, this is against transparency.

4.6.3 It is recommended that as a policy, Cenvat credit should not be allowed on deemed credit basis.

4.7 Recovery of Cenvat credit erroneously refunded

4.7.1 Rule 12 of the Cenvat Credit Rules, 2002, deals with recovery of Cenvat credit wrongly taken. As mentioned therein, the credit wrongly taken or utilized along with interest shall be recovered from the manufacturer by applying the provisions of Section 11A & 11AB of the Central Excise Act, 1944. These Sections provide for issue of demand notice for Central Excise duty not levied or paid or short levied or short paid or erroneously refunded.

4.7.2 In this regard, it is seen that in terms of rule 5 of the said Cenvat Credit Rules the refund of Cenvat credit can be given to the manufacturer in certain situations. However, in the event a refund is erroneously given there appears to be no provision to recover the same. No doubt, Section 11A would apply to a case of erroneous refund of Central Excise duty but by virtue of rule 12 of the Cenvat Credit Rules it would not apply in case of Cenvat credit erroneously refunded.

4.7.3 It is recommended that rule 12 of the Cenvat Credit Rules, 2002 should be amended to provide for recovery of Cenvat credit erroneously refunded.

4.8 Storage of inputs outside factory after taking Cenvat credit

4.8.1 There is no provision in the Cenvat Credit Rules allowing the recipient of the Cenvat inputs who has availed the credit to store the said goods outside the factory in case there is a shortage of space or for any other reason. Presently, the goods cannot be removed from the factory of manufacture unless the removal is for purpose of job work or these are being cleared permanently. It is the view that the absence of a suitable provision is causing genuine difficulties for the manufacturers who like to get the inputs at the best price by buying in bulk but use the inputs in smaller quantities. There are occasions when a particular input is procured for a specific purpose say, an export order which gets cancelled or postponed necessitating the need to hold the input stocks for a later date. Thus, the facility of storage of the inputs outside the factory would facilitate the trade and industry. It is also not a risk to revenue since a suitable procedure can be drawn up to identify the place of storage and account for the inputs.

4.8.2 It is recommended that Cenvat inputs maybe allowed to be stored outside the factory in an identified place of storage subject to procedural safeguards for due accountal of the inputs.

5. Exports

5.1 Self Sealing

5.1.1 Self sealing of container and export goods is allowed under Central Excise provisions subject to prescribed conditions and responsibilities imposed on the exporter which safeguards revenue. Normally these permissions require periodic renewal. At times the field formations are known to refuse this permission. In such situation the exporter has the option of getting the goods sealed by the central excise officers.

5.1.2 In so far as the sealing of export goods by the central excise officers is concerned, it is the view that this invariably causes delays as the officers may not always be present. Further, there is a rise in transaction cost on account of the fact that overtime has to be paid to the department for this work. In any case self-sealing or sealing by central excise officers does not provide a significant relief since the customs at the port of export has the right to re-examine the goods. No doubt the risk attached to goods may be lower when the goods are sealed by the central excise officers. Taking into account all factors related to the sealing of export goods, the pros and cons it is the view that the exports should not be subjected to avoidable transaction costs incurred on account of sealing by the central excise officers. In any case there is a revenue safeguard since the Risk Assessment module at the port of export would take into account the fact that the goods are self-sealed.

5.1.3 It is recommended that sealing of export consignments by Central Excise officers should be replaced by self-sealing by the exporter. This should be granted as a matter of right and not on case to case basis.

5.2 REBATE OF DUTY.

5.2.1 As per rule 18 of the Central Excise Rules, 2002, rebate is granted on the amount of duty paid on such excisable goods or materials which are used in the manufacture of goods exported out of India. In accordance with the relevant notifications Nos. 40 and 41/2001-CE (N.T.), both dated 26th June, 2001 the rebate is granted by the Deputy Commissioner having jurisdiction over the factory of the manufacture or the Warehouse or the Maritime Commissioner of Central Excise.

5.2.2 In so far as the grant of rebate by the Maritime Commissioner is concerned, at present the exporters after obtaining the proof of export from the Customs officer at the port of shipment have to tender this document to the office of the Maritime Commissioner. Invariably this causes delays. On the other hand if the functions of the Maritime Commissioner are transferred to the Customs Houses located at the said ports the delays would get reduced. Further, such a system would have the following advantages:-

(i) Reduction in the transaction costs of the manufacturer-exporters.

(ii) The proof of Export being signed by the Customs officer at the port of shipment would also ensure the genuineness of export within the same office.

(iii) Reduce the number of agencies and the paper work both for the department and the exporting community.

5.2.3 Accordingly, **it is recommended that the work of grant of rebate should be centralized at the Custom House itself. In the alternative, an EDI link can be provided between the Customs House and the Maritime Commissioner**.

5.2.4 This measure is in addition to the grant of rebate by the Deputy/Assistant Commissioner of Central Excise having jurisdiction over the factory of the manufacturer or warehouse, as at present.

5.3 All refunds/ rebates to be directly credited to Bank account.

5.3.1 At present, refund/rebate is sanctioned by the competent authority and the payment is made by issue of cheque. The practice is that the cheque is physically delivered to the tax payer, and reportedly this is an avoidable contact point. On the other hand the exporting community is happy with the system of disbursal of the drawback by credit directly to their bank account. Similarly, it is reported that on the Income Tax side the procedure of disbursal of refunds by transfer of cheques direct to the bank account of the assessee is trouble free.

5.3.2 It is recommended that in order to reduce contact points and speed up the disbursal of the rebate/ refund, the same should be directly credited to the tax payers' own bank account.

6. Manner of payment of Duty

6.1 Periodicity of Payment of Duty

6.1.1 At present, in terms of rule 8 of the Central Excise Rules, 2002 SSI units pay duty on a monthly basis while non-SSI units pay the same on a fortnightly basis. A condition has also been imposed that Cenvat credit of inputs, raw materials etc. available as on the fifteenth day of the month alone should be utilized while discharging the duty liability for the fortnight. This increases the documentation on the part of the tax payer. It also increases the checks to be performed by the Department while doing the scrutiny of the prescribed return. Accordingly, it is the view that a uniform periodicity of payment of duty would be administratively convenient to administer and increase trasnparency. It would also reduce the number of duty payment challans and facilitate revenue reconciliation. It would also be in line with the practice of monthly filing of returns by assesses. However, no change is suggested for the SSI sector.

6.1.2 It is recommended that fortnightly payment of duty may be replaced by monthly payment.

6.2 Date of Payment of duty

6.2.1 Explanation to Rule 8 of the Central Excise Rules 2002 dealing with manner of payment of duty clarifies that duty liability shall be deemed to be discharged only if the amount payable is credited to the account of the Central Government by the specified date. Also C.B.E.C. has clarified that the date of affixation of 'receipt stamp' on duty payment document (TR-6), against duly cleared cheque shall be treated as the date on which the amount is credited to the Central Government account. However, it is a fact that it is difficult to ascertain exactly when the amount paid is credited to the Government account. Moreover there is invariably few days delay in realisation of the amount when payment is by cheque. Such instances are treated as default in payment of duty and penal action is initiated against the assessee even though he has deposited the cheque by the due date. However it would be unfair if after having deposited the duty amount by the due date and the cheque being dishonoured, the tax payer is penalized on account of the delays in banking channel. In fact, on the Service Tax side and also in Income Tax Department the date of payment of duty is the date of deposit of cheque. This is considered a better method.

6.2.2 It is recommended that the date of payment of central excise duty may be prescribed as the date of presentation of the cheque to the Bank subject to its realization.

6.3 Default in payment of duty

6.3.1 Rule 8 (4) of the Central Excise Rules, 2002, provides that in case an assessee defaults in payment of installment of duty, as specified, then he shall forfeit the facility to pay the dues in installments for a period of two months starting from the date of communication of an order passed by the Deputy/ Assistant Commissioner or till such date on which all dues are paid, whichever is later. Further, during the period the facility is withdrawn , the assessee has to pay duty on consignment basis by debit to account current (PLA).

6.3.2 Three issues arise out of the above provision. Firstly, whether it is correct to deny the facility of payment of duty in installments. It is the view that this is too harsh and it should suffice that an assessee who has defaulted in timely payment of duty pays the due interest and penalty on account of the non-payment of duty on time. It is the finding that very often the present provision of withdrawing the facility altogether affects the affected industry and its various survival is in doubt. Accordingly, in the event an assessee has defaulted in payment of duty by the due date the law should provide for automatic calculation of interest and penalty, which can be fixed in terms of the quantum of delay. The facility should not be withdrawn.

6.3.3 The second issue is regarding the passing of an order by the Deputy/ Assistant Commissioner withdrawing the facility of payment of duty in installments. In the event it is considered that the facility must be withdrawn, though it is recommended that it should not be so, there should be an automatic system of withdrawal of facility. The passing of an order implies following due process including issue of notice, grant of personal hearing, etc. This defeats the objective. It should be legally justified to withdraw the facility when the default is noticed by issue of a simple communication.

6.3.4 The last issue relates to the present provision of payment of duty on consignment basis by debit in account current. In other words, during the period the facility of payment of duty in installments has been withdrawn the assessee cannot pay duty by using the accumulated Cenvat credit. It is the view that this is too harsh a measure. Government should be concerned with payment of duty and not whether it is being paid through debit and account current or through a Cenvat credit. Accordingly, it is a view that this condition should be withdrawn.

6.3.5 It is recommended that :

- **(i) The provision of withdrawing the facility of payment of duty in installments in case of default should be withdrawn.**
- **(ii) There should be automatic charge of interest and penalty in the event duty is not paid on time.**
- **(iii) In the event it is decided to retain the provision of withdrawing the facility the assessee should be allowed to pay duty during this period through Cenvat credit.**

6.3.6 At the same time it should not happen that an assessee continues to default stating that he would pay the interest and penalty in due course. Accordingly, in such case the recovery proceedings under the law should be initiated.

7. Budget Day restrictions

7.1 Rule 32 of the Central Excise Rules, 2002, indicates the restrictions on removal of goods on Budget Day. Essentially it provides that between the time the Budget/ Finance Bill is presented and 2400 hrs midnight on the said day no excisable goods can be removed from a factory or warehouse unless specific permission is obtained from the Commissioner of Central Excise. Moreover, an application for removal of goods has to be presented before 1700 hrs on the working day immediately before the Budget Day.

7.2 Budget Day restrictions had been present in Central Excise law from the very beginning. Earlier, the restrictions were more rigid. Even at present, the net result is that on the Budget Day, clearances of excisable goods all over the country come to a stand

still. Reportedly, factories shutdown and there are no economic activities. The Central Excise officers also resort to physical verification of stocks and clearances from the factory, if permitted, take place under physical supervision. Expectedly, transactions costs go up and it is a fertile ground for corrupt practices. Evidently, the restrictions were earlier imposed to ensure against speculation and evasion of duty as during these times the central excise duty was usually revised upwards. Moreover during these times the central excise duty was discharged consignment wise. This is not the case now. In any case, it appears incongruous that the Budget, an instrument to boost economic activity starts with the complete stoppage of all such activity. As regard the likely misuse, no doubt, there may be small clearances of goods at lower duty (if the duty rates go up) but this should be ignored in the interest of encouraging free trade and commerce. Also, under the self-assessment system a procedure is in place to ensure proper accountal and discharge of duty.

7.3 It is recommended that the Budget Day restrictions are out of tune in present day world and should be removed

8. Removal of goods for job-work

8.1 CENTRAL EXCISE RULES, 2002 DO NOT CONTAIN ANY PROVISIONS FOR REMOVAL OF GOODS WITHOUT PAYMENT OF DUTY FROM ONE FACTORY TO ANOTHER FOR THE PURPOSE OF PROCESSING WHEN THE MANUFACTURER IS NOT WORKING UNDER CENVAT SCHEME. FOR INSTANCE, EARLIER RULE 96E OF THE CENTRAL EXCISE RULES, 1944 PROVIDED A SPECIAL PROCEDURE FOR REMOVAL OF COTTON YARN FOR PROCESSING LIKE WINDING, DOUBLING, REELING ETC. OR FOR CONVERSION INTO HANK YARN IN PLAIN REEL HANK. THUS, THE MANUFACTURERS NOT WORKING UNDER CENVAT SCHEME WOULD HAVE TO PAY DUTY ON THE GOODS AT THE TIME OF REMOVAL TO OTHER FACTORIES FOR THE PURPOSE OF FURTHER PROCESSING. THIS REQUIRES REDRESSAL.

8.2 It is recommended that there should be a provision for allowing the movement of dutiable goods without payment of duty to job worker even in situations when the principal manufacturer is not working under Cenvat Scheme.

9. Collection of information from tax payer

9.1 While studying the various contact points between department and tax payer, it was revealed that in order to collect information on central excise duty collections all large assesses are being contacted over telephone and through visits to ascertain the duty paid by them during the fortnight. Reportedly, this information is being collected on behalf of C.B.E.C. It is not clear how this information is made use of. In any case, a separate recommendation has already been made for shifting to monthly payment of duty. In the circumstance, it appears that the information on fortnightly payment of duty need not be collected as it increases contact points and causes harassment.

9.2 It is recommended that fortnightly statement of revenue paid, which is presently being collected from tax payers, may be discontinued. Further, as a policy, no information should normally be asked for (from departmental officers or industry) unless it is being obtained in the prescribed returns.

10. Dispute resolution

10.1 Section 11A of the Central Excise Act, 1944 provides for voluntary payment of duty, with interest, by assessees before issue of a Show Cause Notice. However, cases involving suppression, mis-declaration etc., with intent to evade duty are excluded. It appears that since the intention of the Government is to realize the duty at the earliest the assessee should be given the option of voluntarily depositing duty even in the case of fraud etc. However, to ensure that no undue advantage is taken of this facility, such cases should be subject to payment of interest and 25% penalty. In any case even at present after a long drawn out adjudication

proceeding the assessee has the option of paying 25% penalty if he pays the confirmed duty within one month of the order determining the duty.

10.2 A related issue is that as a policy when department detects short levy or payment of duty it should have an open discussion with the assessee before proceeding with the issue of Show Cause Notice, if warranted. This will allow the assessee to exercise the option of voluntary payment of duty thereby saving on time and resource in adjudication proceedings.

10.3 It is recommended that :

(i) **Scope of Section 11A(2)(B), i.e. non-issue of SCN to be expanded to include cases of non-payment detected by Audit/ Department.**

(ii) **Section 11A should be amended to provide for the issue of a Show Cause Notice which automatically collapses if the tax payer voluntarily pays the duty and interest and 25% penalty within a period of 30 days of the issue of the notice. This would apply to cases involving fraud, etc. In such cases the Notice should also mention in its preamble that there would also be no prosecution proceedings. The provision regarding collapse of the Show Cause Notice should apply to 'other' cases but without the requirement of payment of 25% penalty.**

11. Filing of Returns

11.1 Every tax payer is required to submit a return in the prescribed form indicating the production and removal of the goods and other relevant information including duty paid. This is supported by a copy of TR6 challan which evidences the deposit of duty in the Bank. Whereas, an assessee is required to furnish this return by the 10th of each month (for the preceeding month) an assessee in the small scale sector is required to furnish this return by the 20th day following each quarter (for the preceeding quarter). Two issues are raised in respect of the filing of return. Firstly, the duty has to be paid by the 5th of the following month and it becomes difficult to finalise the return in only 5 days thereafter. Secondly, the furnishing of the return is a contact point which is avoidable. Hence, steps must be taken in the interest of transparency and tax payer facilitation

11.2 In this regard a perusal of the return and a study of the present system shows that on-line filing of return would greatly facilitate both department and assessee. However, there are two constraints in moving towards this mechanism. Firstly, digital signatures are not recognized. Secondly, the submission of the hard copy of the TR6 challan requires manual filing of return. In so far as, the submission of the TR6 challan is concerned it is felt that this can be dispensed with. Presently, this document is used to reconcile the payments by matching with the copy of TR6 challan received separately by the PAO from the Bank. Instead the matching could be done on the basis on declaration of duty paid to TR6 on the return with the TR6 copy with the PAO. In so far as, digital signature is concerned steps have to be taken for its recognition.

11.3 It is recommended that :

(i) **Date of filing return be shifted to the 15th. of the close of the month/ quarter, as the case may be for all tax payers i.e. including those in the SSI sector. However, the large units would furnish on-line or otherwise, by the 6th of each month, the information of total duty paid.**

(ii) **As a first step towards on-line filing of returns the monthly/ quarterly submission of TR 6 challans may be discontinued and steps should be taken to eventually allow on-line filing of returns. The details of TR 6 Challans will be mentioned in the returns.**

12. Voluntary filing of documents by tax payers

12.1 SOMETIMES THE TAX PAYER WOULD LIKE TO VOLUNTARILY FILE SOME DOCUMENTS IN CONNECTION WITH HIS MANUFACTURING ACTIVITY WITH HIS JURISDICTIONAL EXCISE DEPARTMENT EVEN THOUGH THE SAME ARE NOT STATUTORILY PRESCRIBED. THIS IS DONE AS A MATTER OF ABUNDANT CAUTION SO AS TO PREEMPT ALLEGATION OF SUPPRESSION OF FACTS AND CREATING HARDSHIP AND LOSS THROUGH IMPOSITION OF FINE AND PENALTY.

12.2 SUCH A REFUSAL APPEARS UNFAIR AND UNWARRANTED. VOLUNTARY FILING OF DOCUMENTS AND PAPERS TO SAFEGUARD THE TAX PAYERS INTEREST CANNOT BE DENIED. MOREOVER, THIS HAS NO RISK TO REVENUE AND INSTEAD HELPS IN DISPENSING JUSTICE.

12.3 IT IS RECOMMENDED THAT IT MUST BE MADE BINDING ON THE FIELD OFFICIALS TO ACCEPT SUCH DOCUMENTS AND GIVE AN ACKNOWLEDGEMENT IN WRITING, IF NEEDED, IN ORDER TO SAFEGUARD TAX PAYERS INTEREST.

13. Visits of CAG staff

13.1 Rule 22 (3) of the Central Excise Rules, 2002 provides that every assessee shall, on demand make available to the audit party deputed by the Comptroller and Auditor General of India (CAG) the specified records maintained by him. As a result it has been reported that CAG officers are visiting the manufacturing premises for the purpose of audit. On their part the Central Excise officers are in any case statutorily responsible for ensuring the correctness of the duty payment and also visit the manufacturing units for conduct of the audit. The repeat visit for the same job by the CAG officers upsets the work programme of the tax payer. Reportedly it is also undesirable as it increases interface and gives rise to unhealthy practices.

13.2 In this regard it is seen that in terms of the Constitutional provisions, the responsibility of the CAG centers upon the Consolidated Fund only. Furthermore CAG has not been likewise authorized to visit the tax payers both on the Customs and the Income Tax side. It is learnt that originally this provision was not there in the central excise law also. Taking into account all factors and the endeavour to reduce contact points to the minimum, it appears desirable that CAG should not conduct audit at the premises of private manufacturers. This would be a welcome step allowing the tax payer to concentrate on his business activities.

13.3 It is recommended that Rule 22(3) of the Central Excise Rules, 2002 may be amended to exclude reference to audit party deputed by the Comptroller and Auditor General of India.

14. Arrest

14.1 Arrest provision in central excise as contained in Section 13 of the Central Excise Act, 1944 has been reported to be misused to the detriment of tax payer confidence. Reportedly there are many cases when the officers at the cutting edge have threatened the tax payer with the use of this provision for their personal gain. There is no doubt that a tax evader deserves no leniency but the finding is that the vast body of the honest tax payers remain in constant fear of the misuse of this provision. There is, accordingly, a need to review the provision.

14.2 In this regard an attempt was made to ascertain the best international practices. By and large it was seen that the law is severe on the tax evader. Accordingly, it was also examined whether in our context certain safeguards could be built into the provisions so that the honest tax payer is not harassed and the provision is not misused. One safeguard could be that the arrest is

made with the written sanction of the Commissioner and another that the Citizen Charter clearly indicates the rights of the arrested person. However, due cognizance was given to the fact that the large number of the taxpayers and the potential tax payers particularly in the small scale sector do not have access to the information and the provision could still be misused. In this background, keeping in mind all factors of which the most important is o restorer tax payer confidence in the tax administration it is the view that the power to sanction arrest should not be exercised by the departmental officer. This is also in line with the best international practices.

14.3 It is recommended that the arrest in central excise cases, if warranted, should be made with the sanction of a Magistrate. This would require suitable amendment to the Central Excise Act, 1944.

15. Tax Clinics for Small Scale Sector Manufacturers

15.1 A critical element of tax payer facilitation is the proper dissemination of information and guidance in the compliance of the legal provisions. This is all the more necessary in respect of our small scale manufacturers who are typically one–man shows and cannot keep abreast of the changes in the law and procedures. In fact, it is the absence of healthy interaction between the taxpayer and the tax administrators that often leads to compliance issues. It is desirable that the confidence of the small scale manufacturer should be restored for which an institutionalized mechanism is necessary. Importantly, it is the tax administrators who must reach out to the small scale manufacturers. Expecting a small scale manufacturer to leave his business and enter the portal of the Commissionerates may not yield results as the mentality is that he would rather avoid the interaction. The interaction which is now proposed would be a step towards educating the small scale manufacturers about their legal responsibilities, guiding them in the conduct of their tax matters and breaking the communication wall which has distanced the small manufacturers for the tax administrators.

15.2 It is recommended that by 1st April 2003 each Central Excise Commissionerate should establish one Tax Clinic for the Small Scale Sector, under the charge of a Superintendent and the overall supervision of the Deputy/Assistant Commissioner to guide small scale manufacturers. This Cell should closely coordinate with the Small Scale Manufacturers Associations. The number of such Clinics can be increased later based upon the experience.

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CHAPTER 5

EXPORT PROMOTION

1. **Introduction**

1.1 Export is of paramount importance and at any point of time we have had more than one scheme to facilitate and encourage exports. As a result, exports have gone up but the pace has not been satisfactory. Moreover, the critical test of a scheme is whether it has led to genuine exports or not. This question assumes importance as there are a number of reported cases of overvaluation of exports and in the name of exports dumping of sub-standard goods abroad, which are not even cleared at the foreign ports. No doubt this happens because the unscrupulous exporters are actually targeting the benefits in form of duty free imports and their chief concern is not exports. The link between such exports and hawala transactions to fund illegal activities is also brought out. Thus, whereas there should be all encouragement to genuine exports steps have to be taken to check misuse of the export promotion schemes. This assumes great importance when we find that precious customs and central excise revenue is sacrificed in the name of exports. The link between revenue foregone on account of export promotion and a low tax to GDP ratio is also evident, though it must be added that this would be a non-issue so long as genuine exports do take place. However, when

exports do not pick up commensurate with the duty foregone, legitimate questions are rightly asked as regards the efficacy of the schemes.

DUTY FOREGONE ON EXPORT PROMOTION SCHEMES

EXPORT PROMOTION SCHEME	DUTY FOREGONE (IN RS.CRS.)		
	1999-2000	**2000-2001**	**2001-2002**
ADVANCE LICENCE SCHEME [PERMITS DUTY FREE IMPORTS OF INPUTS, FUEL CATALYSTS ETC. PRIOR TO OR AFTER FULFILLMENT OF EXPORT OBLIGATION]	3803	4879	6952
EXPORT PROMOTION CAPITAL GOODS SCHEME [PERMITS IMPORT OF CGS AT CONCESSIONAL RATE OF 5% OR 10% AGAINST EXPORT OBLIGATION]	1299	1513	2008
DUTY ENTITLEMENT PASS BOOK SCHEME [GRANTS CREDIT FOR PAYMENT OF DUTY BASED ON F.O.B. OF EXPORTS. ALL INPUTS HAVING STANDARD INPUT OUTPUT NORMS ARE DEEMED TO BE IMPORTED DUTY PAID, EVEN THOUGH IN PRACTICE ONLY DOMESTIC INPUTS MIGHT HAVE BEEN USED]	4063	4630	5660
DUTY DRAWBACK SCHEME [AFTER EXPORTS, CERTAIN PERCENTAGE OF F.O.B. VALUE OF EXPORTS IS GIVEN BACK AT THE PREDETERMINED RATES]	4257	4189	2956
TOTAL REVENUE FOREGONE (INCLUDING EOU/EPZ SCHEME)	**18166**	**21658**	**24798**

2. Viable export strategy

2.1 It is the view that a viable export strategy must rest upon two basic premises. Firstly, to be competitive in the international market, the export product must match, if not better, the competition in terms of pricing and quality. Secondly, the exporter must have an incentive to enter the highly uncertain export market. Both these objectives are achieved through wide-ranging facilities,

infrastructure, financing, income tax relief, trade facilitation, etc. and indirect taxes play a critical role. Taking up indirect taxes, it is evident that the strategy so far has been to grant customs and central excise duty exemptions on the raw materials, inputs etc. used in the export product. Particularly on the customs side this leads to making available the international high quality raw materials, inputs etc. at the international price and our exporters are thus not disadvantaged viz. a viz. their competitors abroad. Moreover it ensures that the price of the export product is not loaded with any tax element.

2.2 Neutralizing the tax element in export products is an internationally accepted methodology. However, it is seen that we have multiple schemes which are not all necessary e.g. Drawback, DEPB, Advance Licence/DEEC, DFRS, EPCG and EOU). Besides creating difficulties in administration, multiple schemes tend to be misused. Further, in view of practically no import licensing requirement now, the advantage is to be extended basically in terms of tax free availability of inputs, raw materials etc. Therefore, **it is recommended that the multiplicity of export promotion schemes through taxes should be done away with. The new export strategy should rest basically upon two schemes:**

(i) SEZ and EOU schemes – This is for the units dedicated to exports – here, tax relief should be available for all goods (capital goods, raw materials etc.).

(ii) Other schemes – Here, the relevant schemes may be two, one focusing on capital goods and other on raw materials, inputs etc. The relief from tax may be provided in two ways :

(a) Exemption from duties subject to post-clearance intelligence and audit-based verification checks.

(b) Refund of duties paid through Drawback route.

2.3 Drawback scheme have lower leakage risks, and are, therefore, more suitable. The disadvantage is that it imposes a cash-flow burden on exporters, and are in any case imprecise in removing the indirect tax burden on export contents, as accurate and up-to-date input-output relationships for determining drawbacks are difficult to maintain. On the other hand exemptions eliminate the cash-flow burden on qualified exporters completely, but at the price of higher risks of leakage. As a policy they should only be applied to exporters who meet very restrictive qualifying criteria, such as a high threshold of exports to total sales and a good track record of tax compliance. In the present situation in India there is a strong case to eliminate or reduce the scope of advance license system and EPCG scheme, and rely on an efficient duty drawback system.

2.4 Drawback is WTO compliant and is therefore recommended as the preferred scheme. However, this is based upon the assumption that the present difficulties in respect of this scheme, which have been dealt with later, are removed. Needless to state the schemes should be administered by the Department of Revenue, which is the primary stakeholder on account of either non-collection of the revenue or its subsequent refund.

2.5 Multiplicity of export promotion schemes which are framed by the department of Commerce and implemented by this department often lead to duplication of work. For instance, in the case of a violation, interest and penalties can be imposed by both the departments of Commerce and Customs. This duplication needs to be removed. Whereas the Ministry of Commerce and Industry may be concerned with macro level export policy formulation, administration thereof needs to be vested with the Customs since the goods are imported/exported through Customs barriers.

3. EOU/ EPZ schemes

3.1 In so far the EOU/EPZ schemes are concerned, the trade and industry do not have any significant conceptual disagreement with their design. However, in order to derive full advantage the following areas require attention :

3.2 Codification of laws and procedures relating to EOU/EPZ scheme

3.2.1 The EOU/EPZ scheme has a common philosophy and common objectives. Therefore, by and large the procedures are the same. The one critical difference is that whereas the EOUs are 'stand alone' units the units in the EPZ are in a well defined enclave. However, a perusal of the scheme, as per the supporting customs and central excise duty exemption notifications and procedures reveals a confusing scenario. This is since there are an unduly large number of notifications (over 50) and circulars (over 300) in existence at any one point of time. It can well be contemplated that both the tax administrators and the units themselves would have a lot of doubts in view of the sheer volume of relevant material. It is also quite possible that cases of misuse of the scheme, which are on the rise in recent years are on account of the absence of codification of the law and procedures in respect of the EOU/EPZ units.

3.2.2 **It is recommended that since the general premise of the schemes is the same, the C.B.E.C. must immediately work upon consolidating the many notifications, on both customs and central excise side. This may be done before the next Export-Import Policy by 1st April 2003.** Likewise, it is necessary that all the circulars and instructions should be reviewed and issued as a compendium, subject wise. Future changes if any must be built in the said compendium from time to time so that at any one point of time the units as well as the administrators have updated information available with them. Not only will this ensure transparency it would reduce the scope of misuse.

3.3 Access to DTA

3.3.1 The second issue is that of DTA sale. Initially there was no DTA sale allowed to the units, one reason why these were called '100%' EOUs. However, in view of the fact that access to international market may not always be available DTA sale was allowed in a limited way as a buffer. This was in 1988 when DTA sale was first allowed in a limited way. However, over time the extent of DTA access has increased, touching a figure of 50% at present. And this is for a unit set up for exports! There appears to be little or no justification to grant so many fiscal and others concessions to units exporting only 50% of the production. This also places the DTA units at a disadvantage. Hence, it is high time the DTA sale policy should be reviewed. The DTA sale facility should be restricted so that it acts as a buffer for the unit and should not become its regular activity.

3.3.2 It is the view that a high level of DTA sale acts as a deterrent to a focused approach to exports. Indeed if the units are able to achieve the export obligation alongwith such high level of penetration in the domestic market it is indicative that the export obligation has not been fixed correctly in the first place and could be increased! Accordingly, in order to bring the focus back to exports, the DTA sale should be reduced from the present level. Needless to state the reduction should take place for the new units in view of the fact that the existing units have made investment decisions taking into account the present access to DTA. The question of promissory estoppel is also relevant.

3.3.3. Sale in the domestic market should get progressively reduced for the EOU/EPZ units, as follows :

(i) Year 0 (2003-2004) – From 50 % to 30%

(ii) Year 1 (2004-2005) – From 30 % to 15%

(iii) Year 2 (2005-2006) – From 15 % to 10%

3.3.4 It is considered that DTA access to the extent of 10% of the value of physical exports is justified in view of the uncertainties of the international market and the units may require a buffer from time to time. Such nominal access would also not take away the focus of the units from exports.

3.3.5 A related issue is the rate at which duty must be levied on the DTA sale. At present duty is generally levied at the rate of 50% of the customs duty or the excise duty whichever is higher. Since the customs duty is still quite high the unit is invariably levied at the rate of 50% of the customs duty on like goods as if imported. However, in the event the unit is using wholly indigenous raw materials the duty levied is equal to the central excise duty but if the same is nil then duty is 30% of the customs duty.

3.3.6 There is one view that when the unit is getting all its capital goods and raw materials duty free no concession in duty is justified. The unit has to focus on exports and the DTA access acts only as a buffer in bad times. Therefore, it is not justifiable to sacrifice revenue to the extent of 50% of the customs duty when the goods are not exported but are sold at profit in the DTA. It may be argued that in the absence of the concession the unit would have no buyers in the domestic market as they would prefer to import directly. This argument is countered by the fact that it is not so easy to import directly and the payment is to be made in foreign exchange, which is not necessary when the goods are taken for an EOU. In fact in the absence of an assured domestic market the unit would perforce focus on direct export which is the very purpose of the EOU scheme.

3.3.7 Thus, while rejecting the theory of a high DTA access (50%) there is a justifiable case for reducing the extent of duty concession on such sale. **The duty may be at 75% of the customs duty or the excise duty whichever is higher. In the event the unit is based on use of indigenous raw material, the duty rate may be kept at 50% of the customs duty.** Such units are also deriving other advantages under the EOU scheme which are not available to the domestic units. The principle objective is to bring back the focus of the EOU scheme on exports.

4. Drawback Scheme

4.1 Drawback scheme neutralizes the incidence of indirect taxes (customs and central excise) on the export products through the refund of the said duty. Basically there are two methods which are followed. The first is the All Industry Rate of Drawback, which is determined on annual basis for a large number of export goods. The rate of Drawback indicated here is worked out on the basis of statistical study taking into account the average indirect tax on each of the export goods. The other route is the Brand Rate of Drawback. This is fixed for a particular goods and particular exporter on the basis of an application made to the Drawback Directorate. Basically this route is adopted by exporter who are not satisfied by the All Industry Rate and feel that their product has suffered higher input taxation.

4.2 Drawback is an export incentive scheme and is WTO compatible. It has been found to be the most transparent of all schemes as the tax rebate is on the basis of quantifiable data. However, certain areas of improvement have been identified.

4.3 Blocking of Drawback

4.3.1 At present the Drawback Rules provide that in the event the exporter does not furnish proof of remittance of sales proceeds within 6 months of exports the amount availed as drawback has to be returned. This is being enforced on the strength of XOS statements received from RBI. It is seen that once the XOS statement is entered into the system the software is so developed that it automatically blocks further disbursal of drawback to the exporter concerned. In fact the blockage is so complete that even if the outstanding is a nominal amount all future drawback claims amounting to Crores of rupees would get blocked. This is a cause of hardship to the genuine exporter who may be in a position to finally satisfy the customs that the foreign exchange has been received. The present procedure is also not sound on equity as the amount blocked has no relation to the amount of drawback under dispute.

4.3.2 **It is, therefore, recommended that there should be an immediate software modification such that amount of drawback blocked should not at any one point of time exceed the amount under dispute.**

4.4 Confirmation of receipt of remittance

4.4.1 The Drawback Rules provide for recovery of drawback in cases where the sale proceeds of the exported goods are not realized. It is specified that this verification has to be done on the basis of intimation from the RBI (XOS Statement). The XOS Statement is received on a periodic basis, normally once in six months, after which verification is carried out and demands raised where the Foreign Exchange has not been realized. Very often these demands are kept pending since exporters claim that Foreign Exchange has since been realized and would be reflected in the ensuing XOS Statement.

4.4.2 It is recommended that to avoid un-necessary issue of demands and their pendency, the customs may accept Bank Realisation Certificates as a proof of realisation, which may be produced by the exporters themselves.

4.5 Management of XOS data

4.5.1 At present, RBI compiles the report of outstanding remittances for exports made under various schemes every six months and sends the same to the nodal Custom House in the form of XOS (Export Outstanding Statement). Thereafter, the Customs have to recover drawback on unrealized remittance and use the data for any kind of risk analysis.

4.5.2 The volume of data in the XOS is phenomenal. To illustrate, XOS of only RBI, Delhi contains 55,000 shipping bills. Such a volume is not amenable to manual sorting. Further, whereas the existing format of XOS provides details of name , address of exporter, Number of Shipping Bill, G.R.Number and Amount Outstanding, it does not provide the following critical information :-

(i) Port of export which could be anywhere in India.

(ii) Scheme under which exported.

4.5.3 It is therefore not surprising that there is delay in linking the XOS statement with the port/airport concerned and export benefits wrongly availed of can not be recovered. **Hence, for recovery of inadmissible export benefits, it is recommended that the Shipping Bill number should be standardized to include the details of the port/airport of export. There should also be electronic exchange of information between the RBI and the Custom House.**

4.6 Duty Drawback on Composite items

4.6.1 As per general Note no. 11 of Duty Drawback Schedule, in the case of export of composite items constituent material should be visibly distinguishable and their weights should be unambiguously verifiable. That means unless one piece of each item or entire consignment is broken, the weight cannot be verified for some of the handicrafts items. For such items, at the field level, problems are being faced and the Drawback for the composite items is being denied.

4.6.2 It is recommended that as a general policy the weight declared by the exporters should be accepted. Verification should be done only in case of doubt or there is intelligence to the contrary.

4.7 Grant of Drawback at ICD/CFS

4.7.1 In case of export through ICDs/CFS the Drawback amount is presently not sanctioned until the goods have been actually exported from the port/airport of export and proof to that effect is produced. This holds up the Drawback claims for long periods and handicaps the exporters.

4.7.2 In this regard, it is seen that once the goods have been passed for export by the customs at the Inland Container Depot/Container Freight Station (ICD/CFS) and handed over to the transporter for further dispatch to the port/airport of export,

these are effectively out of the control of the exporter. Thus, there is no reason not to allow the Drawback at this stage itself. In fact, on the central excise side, the rebate of duty is being sanctioned no sooner the goods are handed over to the transporter for carriage to port/airport after completion of customs formalities. Thus, the Drawback can be sanctioned on the same lines as export rebate. In the remote situation the export does not take place, the Drawback sanctioned can be recovered as per law.

4.7.3 It is recommended that in case of exports through ICD/CFS the Drawback should be released once the 'Let Export' order is given by the customs for export and the goods are out of control of the exporter for transport to the Gateway port/airport.

4.8 Credit of Brand Rate of Drawback into Bank

4.8.1 Once the Directorate of Drawback issues Brand Rate (or Special Brand Rate) letter, exporter has to get it registered at Customs House. After registration, Quantity release order is issued to DBK section at Airport cargo office from where amount is released after feeding the data into the computer system, which is linked with the shipping bill details of exports made. This procedure takes a lot of time (approximately 3-4 months) before Drawback amount is credited in the account of exporter. Sometimes Shipping Bill details are also not readily available, which causes delay.

4.8.2 It is recommended that after issuance of Brand Rate (including Special Brand Rate) letter, a copy should be forwarded to Customs EDI system for data feeding. The amount of Drawback should automatically be credited in the exporter's bank account as in case of All Industry Rate claims.

4.9 Opening of Bank accounts for Drawback

4.9.1 Under the EDI system and even otherwise, the exporter is required to open a Bank account at an identified Bank and the Drawback amount is directly credited to the said account by the Customs. It has been reported that this arrangement is causing difficulties and increasing the transaction cost for the following reasons:

(i) An exporter who has exports through more than one port/airport has to open that many number of Bank accounts. This entails various formalities, keeping minimum deposit etc.

(ii) When the exporter is located at the interior away for the place of export, the Drawback amount is first received at the designated Bank and subsequently transferred to his own account at the place of his business. This invariably take time and costs the exporter in terms of bank commissions etc.

(iii) When the Bank is located far away the exporter has often to incur wasteful expenditure to ascertain whether the Drawback amount is credited or not.

4.9.2 Accordingly, while the present system of direct credit of Drawback to the designated Bank has its advantages for the exporters who are in the same city it has resulted in increase in transaction cost for other exporters. In this regards, it is learnt that on the Income Tax side they have an arrangement with the designated Bank to send a mail transfer the refund amount direct to the tax payers Bank account wherever located. This system has advantages and resolves the reported difficulties in the present system being followed by customs. It is also learnt that this is at no extra expense to the exchequer. On his part the exporter would not mind paying the additional bank fees, if any, for the facility of receiving the Drawback amount at this own Bank.

4.9.3 It is recommended that at the option of the exporter C.B.E.C. should adopt the Income Tax system of payment of refund for the disbursal of Drawback, i.e. the designated bank would be authorized to send a mail transfer of the Drawback amount direct to the tax payer's bank account, wherever located.

4.10 Furnishing of non-availment of CENVAT Certificate for Duty Drawback

4.10.1 Availment of CENVAT credit and Drawback are mutually exclusive benefits. Accordingly, it is provided that while claiming Drawback the exporter should produce a certificate of non-availment of CENAT credit. In fact to make the matter abundantly clear certain entries of the Duty Drawback schedule specifically provide for the non-requirement of this certificate when the goods are exempt for central excise duty (e.g. proviso of general note No. 8 of Duty Drawback Schedule – Handicrafts (including handicrafts of brass artwares), handloom products or leather and other products). The requirement of the non-availment of CENVAT credit is insisted upon with each and every shipment.

4.10.2 It is the view that customs should trust the exporter to make a correct declaration. The consignment–wise insistence upon production of the required certificate increases the contact points and transaction cost. In the absence of this requirement the disposal of Drawback claims will also speed up.

4.10.3 It is recommended that Customs should accept self- declaration from the Merchant Exporters that their supporting manufacturers are not registered with Central Excise and they do not avail Cenvat benefit. Similar self-declaration should be accepted from manufacturer-exporters. Such claims may be subjected to post disbursal verification on basis of intelligence and risk assessment techniques.

4.10.4 It is also recommended that the Drawback rates should be determined net of the Cenvat credit which would obviate the necessity of any verification regarding Cenvat availment.

4.11 Deputy/ Assistant Commissioner (Exports) to sanction Drawback

4.11.1 In the existing system Deputy Commissioner (Export) and Deputy Commissioner (Drawback) are separate. Whereas the former deals with the passing of export consignments these are subsequently sent to Deputy Commissioner (Drawback) for sanction of Drawback, in case the export is under claim of Drawback. Invariably the new officer raises unnecessary queries and documents have to go to and fro the two officers.

4.11.2 It is recommended that the Deputy Commissioner (Export) may be made fully responsible for "Let Export" and also sanction of Drawback amount. All procedural requirement for Drawback such as production of CENVAT certificates etc. should be scrutinized at the time of Let Export. Once the Shipping Bill is passed the Drawback should be passed subject to only ensuring that the goods have been actually exported. It is expected that this would further speed up the disposal of Drawback.

4.12 Fixing of Drawback Rate for all items covered under SION

4.12.1 There are number of items for which no All Industry Rates of Drawback are available. In the absence of such Rates of Drawback, exporters have to apply individually for fixation of Brand Rate of Drawback which is cumbersome and time consuming process.

4.12.2 It is recommended that the Government may declare Drawback rates for all the items for which Standard Input-Output Norms (SION) are prescribed.

4.13 Reform of Drawback schedule

4.13.1 At present, the All Industry Drawback Rate schedule has hundreds of entries for many export items and the rate of admissible Drawback is indicated against each item. At times, each entry is further divided into sub-categories, each with an individual rate of

Drawback. There is, thus, a multiplicity of Drawback rates. It is the view that the present system is difficult to administer and simplification is called for. Effort should be made to have only few Drawback rates and the export items can be clubbed into broad categories with uniform rates for each such category. Drawback is in any case determined on averages and the broad categorization should not create difficulties. In case the exporter is not satisfied he has the option to go in for a Brand rate or Special brand rate.

4.13.2 It is recommended that C.B.E.C. should review the Drawback schedule and attempt to create broad categories so that complexities are reduced.

4.14 Redressal mechanism

4.14.1 Brand Rate or Special Brand Rate of Drawback is fixed by the Directorate of Drawback, C.B.E.C. on an application made by the exporter. This is done on the basis of the declared input-output ratio and duty burden on the goods followed by post-facto verification on random basis. It is reported that in case an exporter is dissatisfied with the determined Brand Rate or Special Brand Rate of Drawback no mechanism is provided for redressal. Brand Rate or Special Brand Rate has an impact on exports. Accordingly, it is necessary that an exporter must be fully satisfied that he is getting the export incentive correctly. Absence of a redressal mechanism is against the exporters interest.

4.14.2 It is recommended that the Drawback Rules should be modified to provide for an appeal to CEGAT in case an exporter is dissatisfied with the Brand Rate or Special Brand Rate of Drawback fixed for him.

4.15 Interest on delayed sanction of Drawback

4.15.1 Reportedly the sanction of Drawback gets delayed at the hands of the customs and this handicaps the export effort. Further, in the event the grand to refund is delayed the department is liable to pay interest thereon. However, there is no such provision in respect of delay in sanction of Drawback. It is the view that the exporter should not be penalized on account of delays by the department.

4.15.2 It is recommended that in case, the sanction of Drawback is delayed beyond a period of one week of the receipt of complete documents, the Department should be liable to pay interest on the amount of Drawback.

5. Duty Entitlement Pass Book (DEPB) scheme

5.1 As a policy export promotion should largely rest upon an efficient scheme of Drawback and the special schemes for EOU/EPZ/SEZ units. Therefore, there is no place for DEPB. **Accordingly, in view of its many implementation problems, DEPB must be removed from 1st April 2003**. It is expected that by this time the Drawback scheme would have been further improved to reduce delays and provide immediate relief to the exporters.

6. Coordination between DGFT and Customs

6.1 It is often reported that there is a need to promote the coordination between DGFT and C.B.E.C. and its customs field formations as otherwise hardship is caused to the importing and exporting community and there is also increase in transaction costs. Instances were reported of delay in registration of DEPB books by customs as they had not received the copy from DGFT, non-acceptance of the DGFT instruction unless the supporting customs notification were issued etc. It is the finding that the grievances are genuine. Effective implementation of the policy provisions is very important to cut delays and achieve export performance.

6.2 From the point of the view of the exporters and importers the Government is one, and so it should be. Both DGFT and Customs are two arms of the Government and it is necessary that they operate together and in harmony while giving effect to Government policies. At the same time it is appreciated that at the field level the individual officer of customs (or DGFT) are bound by their individual laws and would hesitate to act on the basis of a DGFT order unless specifically so authorized to do so under their own law. Thus, the remedy lies in improved coordination between the two departments. Broadly, the difficulties which are faced at the field level and by the industry can be categorized as follows :

(i) Non-issue of supporting customs notifications despite policy announcement - Invariably it is noticed that there is significant time gap between the EXIM Policy announcement on 1st April each year and the issue of the relevant customs and central excise duty exemption notifications. The notifications are issued after a few months and then too with contents inconsistent with the EXIM Policy provisions. At times the notifications are simply not issued which nullifies the DGFTs policy announcements.

(ii) Non-receipt of documents relating to licensing by the customs - For instance, it is reported that the manufacturer exporter experience difficulties in getting registration of DEPB at the customs port on account of the fact that the Customs authorities may not have got their copy from DGFT.

6.3 The first issue is really one of coordination between two arms of the Government. It is evident that both the delay in release of duty exemption notifications and the contradictions with the EXIM Policy provisions has something to do with turf wars. The matter requires urgent attention. Ideally consensus should be evolved on the Policy prescription before it is announced and the attempt should be to make no changes, which in any way dilute or modify the concessions given earlier, which affect the investor adversely.

6.4 It is recommended that to resolve the issue of absence of coordination between the DGFT and customs the following steps may be taken :

(i) Duty exemptions, which are in general a critical component of the export promotion schemes, should be notified along with the Policy announcement.

(ii) Both Customs and DGFT should make use of EDI technology for exchange of information, which would cut the delays.

(iii) There should be an institutional arrangement to resolve the co-ordination

problems between the DGFT and Customs. The recommended structure is as follows :

(a) 'Export and Import Co-ordination Committee' co-chaired by Member (Customs), C.B.E.C. and DGFT and having as its members J.S. (Customs), C.B.E.C., Additional DGFT, Director (Customs), C.B.E.C. and Joint DGFT and members of Exporters', Importers' and CHA Associations. The Committee would meet once in a quarter to examine and resolve all co-ordination issues. It would also oversee the work of the Regional Export and Import Co-ordination Committees.

(b) 'Regional Export and Import Co-ordination Committee' at each of the ports/airports/ICDs/CFS. This Committee would be chaired by Chief Commissioner of Customs. Senior most member of the DGFT at the port/airport/ICD/CFS would be a member. The Committee would also include all concerned departments and agencies such as custodians, banks, etc. and members of Exporters, Importers and CHA Associations. The Committee would meet once in a quarter to resolve all co-ordination problems. It is expected that since the customs is the chief implementation agency of the DGFT policies this Committee under the Chief Commissioner would ensure early resolution of the problems.

6.5 It is understood that in some places similar bodies do meet but the result is not satisfactory. Hence, there is a need to place the Committees on a firm footing, as proposed above. **These Committees should be notified in the EXIM Policy and the C.B.E.C. Circular**.

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CHAPTER 6

AUTOMATION OF INDIRECT TAX SYSTEMS AND PROCEDURES

1. Introduction

1.1 It is clear that the success of an efficient tax administration rests upon making full use of the potential of automation and related technologies. The bottom line is that change shall, and indeed must, be automation driven. This is also the philosophy underlying the many recommendations of the Task Force in the various matters relating to the Indirect taxes. Internationally too, risk profiling and assessment is heavily dependent upon the use of computers, and Information Technology is revolutionizing the work on trade facilitation.

1.2 The major benefit of an automation programme is experienced in the area of trade facilitation. Automation leads to quicker clearances, standardization of procedures, reduced discretion, less interface and faster decision making, all of which greatly benefit the trade and industry. At the same time, compliance issues are not neglected and, in fact, there is far greater control, though unobtrusive, which is desirable. Thus, internationally, on the customs side cargoes, containers, and goods are being tracked around the globe by a variety of automatic identification devices. EDI and electronic commerce are replacing the tedious paper trail and signatures. Most countries are considering the use of smart cards, and satellite tracking system whereby containers are locked electronically and tracked via satellites. It is the view that India with its army of first-rate IT specialists can certainly take the lead in this transformation rather than take the back seat with outmoded practices. The same goes for reform of the central excise administration, which should follow the best international practices and remove most discretionary powers and rely on a transparent, simple, and objective system based on trust, aided by full use of information technology to collect revenues and punish entities who dodge compliance. The use of automation for higher level policy planning is also evident as the computers capture the required data error free.

1.3 In this regard, it is appreciated that C.B.E.C. has taken some steps towards increased use of technology in the conduct of the day to day operation in the Custom Houses. This is particularly evident in the case of customs with the spread of EDI from port to port. Interestingly, not only does EDI speed up decision making, it also ensures accountability as each transaction is time stamped. Recent initiatives on the Central Excise side, such as on-the spot issue of Registration Certificate by use of web based applications are also promising. However, much more needs to be done and at a far quicker pace. In fact, C.B.E.C. itself appears to be lagging behind in terms of infrastructure and use of computer information. Ideally the C.B.E.C. should have available on line access to all Custom Houses and Central Excise Commissionerates. This would obviate the need of calling for information from time to time. This would also speed up decision making. Further, an arrangement for video conferencing between the C.B.E.C. and the field formations would allow the senior field officers to remain in their station and not come to Delhi often. This would be a facility to the trade and industry as the absence of the officers adversely affects the disposal of work.

2. Automation driven tax administration

2.1. The essential requirement of any successful automation process is the standardization of information and absence of frequent changes. Accordingly, it is imperative that a conscious decision must be taken for imposing self-discipline and not making frequent changes in laws, procedures and rates of duties (through exemptions). Once the procedures are standardized and stable the automation can be done and it would deliver results. However, a successful automation programme rests upon committed administrative support backed by significant financial investment.

2.2 The following recommendations, which encompass legislative, administrative and financial areas, are made for an automation driven tax administration.

(i) All Customs and Central Excise Commissionerates should fully automate their processes by 1st January 2004. This requires a Commissionerate-wise work programme to identify the requirement of each station in terms of resources required.

(ii) EDI must be expanded to cover each Customs and Central Excise Commissionerate by January 2004 for on-line processing of returns and applications (for e.g. refund), risk analysis, profiling and management, message exchange with related agencies, etc. In this direction, one major port and one airport should be made fully EDI operational by 1st April 2003.

(iii) C.B.E.C. and its Directorates should be included in the automation programme. All processes should be automated by January 2004.

(iv) Facility of video conferencing between the C.B.E.C. and the Chief Commissioners should be created.

(v) Research capabilities in TRU should be enhanced by intensive automation and development of new software tools, particularly in the context of emerging challenges once VAT is introduced and integration of Service Tax and Central Excise take place.

(vi) On-line filing of returns and documents should be encouraged. For this, Service Centers may be established with a computer link to the Customs and Central Excise Commissionerates for providing the facility. For instance, Excise-Return data is at present entered by the data-entry-operators of the Department. In order to improve the data accuracy and timely capture of data, entry of the particulars by the assessees through a web-based application at their own premise or at Service Center should be allowed.

(vii) Telephone help-line system should be made available in all Custom Houses and Central Excise Commissionerates for providing information support to trade in respect of status of pending documents/claims and other information on procedures etc. In the long run this should become a centrally operated facility.

(viii) Implementation of the automation programme in a time bound manner requires four dedicated teams to oversee the timely implementation of this work, one for Customs, other for Central Excise, the third for Service Tax, and the last for automation of C.B.E.C. and its Directorates. These should be created in the Systems Directorate, from the staff available consequent to cadre restructuring. The teams would work under the Commissioner, Systems and lay down the road map for automation including resource requirement.

(ix) Sufficient resources must be made available at one go to the C.B.E.C. for the automation project. This step will obviate the necessity of taking sanctions and seeking release of funds each time. Importantly, the resources should include an element for an ‘Upgradation Fund’ for the timely upgradation of the hardware and software on regular basis.

(x) To the extent possible, the automation work should be out sourced as it is not within the core competence of the department. On the other hand India is a leader in software and full use must be made of the local available expertise.

(xi) Senior officers of the Department must take an active interest in computerization by using computers and relying upon the information generated. They should also ensure its use by others. In short, there has to be better ownership at senior levels.

(xii) Systems wing of C.B.E.C. should be strengthened (in terms of both manpower and resources) to ensure immediate dissemination of information through an updated website.

(xiii) Simplification, standardization and stability of law and procedures are essential prerequisites of a successful automation programme.

(xiv) Providing lead-time for software changes when laws are changed is essential for successful automation. For example, a notification must not come into force immediately from the date of its issue but from the next day. Similarly, new procedures should be implemented after a time gap of at least 30 days.

(xv) All procedures must be devised in consultations with the systems personnel who can advise on their adaptability to computerization.

(xvi) Multiple levies create complexities in development of software and retrieval of data. Accordingly, there must be an attempt to reduce the number of levies. Similar is the case in respect of multiple rates of duties. By and large an item should be subject to one duty rate.

(xvii) Levies and exemptions must be aligned to tariff headings. At present levies and exemptions are, at times, announced with reference to the description of the goods. Since the descriptions are not standardized, it creates difficulty in automation.

(xviii) Automated processes should provide for bifurcation of total duty paid into individual heads. In other words, for each Tariff Heading read with the exemption notification, there should be one duty amount to be deposited by the importer. Once deposited, the system should do the further allocation of this amount under the respective duty heads. Presently this work is done by the tax payer.

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CHAPTER 7

IMPROVING INDIRECT TAX ADMINISTRATION

1. Ombudsman for Grievance Redressal

1.1 One of the major areas of concern in present day tax administration is the absence of accountability. Whereas the statutes provide that certain decisions are to be taken within a time frame (such as finalisation of provisional assessments) there is no mechanism to provide that service standards are maintained and there is timely redressal of grievance against non-performance. To illustrate, the tax payer has the right to appeal when a speaking order is passed but he has no option when there is either no action or there is no speaking order passed. It appears necessary that this issue should be addressed if we are to achieve the objective of tax payer facilitation, which has implications for compliance and higher revenue.

1.2 Having examined the mechanisms available internationally and in the country, it is the view that the solution lies in having an Ombudsman for redressal of grievances on account of deficiency of service including non-performance. This would not substitute the present elaborate system of adjudication and appeal but would concentrate on all other areas, administrative or others, in which a tax payer is personally interested. The Ombudsman would be a respectable person of high integrity well versed with customs, central excise and service tax administration. He would be appointed by the Finance Minister and would hold office at his pleasure. The advantage which would flow from the institution of Ombudsman is that it would be a simple, inexpensive and hassle free mechanism to obtain redressal of grievance with its attendant benefits.

1.3 It is recommended that to start with an Indirect Tax Ombudsman may be appointed at Delhi, Mumbai, Chennai and Kolkata by 1st April 2003. The fine details of the scheme can be worked out by them for which a reference may also be made to the Banking Ombudsman which is functioning since June 1995.

2. Directorate of Anti-dumping and Safeguards duties

2.1 Section 9A of Customs Tariff Act, 1975 empowers the Central Govt. to impose Anti-dumping duty when any article is exported from any other country in India at less than normal value. Section 8B of the same Act empowers the Government to impose Safeguard duty when any goods are imported into India in such increased quantities and under such conditions so as to cause or threaten to cause serious injury to domestic industry.

2.2 At present the power to register and investigate cases and recommend Anti-dumping duty is vested with the DG of Anti-Dumping under Ministry of Commerce and Industry. However, on receiving the findings and recommendations from the said authority, the Ministry of Finance, Department of Revenue issues necessary notifications imposing the Anti-dumping duty, which is also levied and collected by Customs officers. On the other hand, the power to register, conduct enquiry and recommend appropriate Safeguard duty lies with the Director General, Safeguard functioning under Ministry of Finance. On the basis of his

recommendation, the Ministry of Finance, Department of Revenue issues notification imposing safeguard duty, which is enforced by Customs officers.

2.3 It is found that the international practice is that the work of conducting hearings and arriving at findings is done by a well respected independent and impartial body, which is strictly not subjected to any sort of influence both from within the Government and outside. Such institutional mechanism, generates confidence in the minds of the foreign investors. It is the view that similar body should be set up in the country.

2.4 It is recommended that an independent body, with separate Budget, consisting of respected professionals including revenue officials should be established to carry out investigations relating to Safeguard duties and Anti-dumping. In the alternative, this work may be assigned to the Tariff Commission.

3. Adjudication and Appeal

3.1 Adjudicating authorities

3.1.1 At present Powers of adjudication are bestowed upon officers of Custom and Central Excise from the rank of Asstt. Commissioner to Commissioner. Each level of officer is empowered to adjudicate cases in terms of certain categorization done by the CBEC on the basis of amount of duty involved (in Central Excise) and value of goods (in Customs). For instance, a Deputy/ Assistant Commissioner can adjudicate cases involving duty of Rs. 2 Lakhs (in cases not involving separation, fraud, etc.). The Joint Commissioner can adjudicate cases involving duty upto Rs. 10 Lakhs and the Addl. Commissioner involving duty of upto Rs. 20 Lakhs. Commissioner can adjudicate cases without any limit. It has been reported that there is a strong pro-revenue bias in the minds of the adjudicating officers. As a result the tax payers have no confidence in the quasi-judicial proceedings. Most consider filing appeal before Commissioner (Appeals) to be an exercise in futility resulting in loss of time and delay in judicial settlement of the disputes.

3.1.2 In the circumstance, there is a need to restore the confidence of the tax payer in the system of quasi-judicial proceedings. After exploring many alternatives it is recommended that instead of one adjudicating officer, a bench of two officers should sit on judgement to decide cases. It is expected that this would lead to passing of considered orders and the elimination of pro-revenue bias. This arrangement should be supplemented by issue of suitable instructions by CBEC that the adjudicating officers need not fear any enquiries or harassment while passing judicious orders which may not be pro-revenue.

3.1.3 To sum up, **it is recommended that without changing the present categorization of cases for purposes of adjudication by the different levels of officers, the adjudication should be done by a bench of two officers of the same level. In case of conflicting views the Chief Commissioner/ Commissioner as the case may be would be empowered to appoint a third officer so that a decision is passed by majority**.

3.2 Pre-deposit of duty at first appeal stage

3.2.1 At present appeals against adjudication orders passed by officers up to the level of Addl. Commissioners lies before the Commissioner of Customs or Central Excise (Appeals). Section 35F of the Central Excise Act, 1944, provides that one of the

conditions of hearing an appeal is that the appellant shall make a pre-deposit of the amount of duty in question. In fact, the appeal may not be admitted unless this is done. Reportedly, the insistence on pre-deposit is causing hardship on trade and industry more so in view of the fact that the orders of the adjudicating authority are generally pro-revenue which in most cases are subsequently set aside. It is also reported that most cases do not get finally settled at the level of Commissioner (Appeals) and insistence on pre-deposit causes cash flow problems.

3.2.2 It is the finding that indeed the majority of cases are being decided at the level of tribunal. The success rate of the Department is also not very high. In this background the pre-deposit of the duty blocks the tax payers funds and in a large number of cases has to be returned. There is also no provision for payment of interest on this amount.

3.2.3 It is recommended that pre-deposit of duty should not be taken at the first stage of appeal, i.e. at the level of Commissioner (Appeals). This would require suitable amendment to the said Section 35 F.

3.3 Issue of Show Cause Notice

3.3.1 Show cause notices for demand of duty from the tax payers are issued under Section 11A of the Central Excise Act, 1944 and Section 28 of the Custom Act, 1962. It is provided thereunder that, in the case the duty to be demanded is over Rs. One crore the Show cause Notice will be issued with the prior approval of the Chief Commissioner and in all other cases i.e. when the duty to be demanded is less than Rs. One crore the Commissioner's approval is required. The Show Cause Notice is thereafter adjudicated by the competent officer, may be Assistant/Deputy/Additional/Commissioner, as the case may be. This is a fairly recent development and earlier the Show Cause Notices for demand of duty were issued by the same level officer, as the one entrusted with the adjudication thereof. For instance, if the case fell within the competence of the Additional Commissioner for adjudication an officer of the same level would issue the Show Cause Notice.

3.3.2 In this regard, it is observed that the present system has eroded the confidence of the tax payers in the system of quasi-judicial adjudication. After a Chief Commissioner or Commissioner level officer has approved the Show Cause Notice the adjudicating officer, who is a junior functionary, does not usually have the confidence to disagree with the findings of the senior officer. As a result, the duty demand gets confirmed. Even otherwise, the tax payers do not have much confidence in the neutrality of the adjudicating officer and the present position makes it worse. Thus, the present system has given rise to increased litigation as the pro-revenue orders of the junior functionaries are contested in appeal. This matter requires redressal.

3.3.3 It is recommended that in order to restore the confidence of the tax payers, Section 11A of the Central Excise Act, 1944 and Section 28 of the Customs Act, 1962 should be amended to restore the earlier position of issue of Show Cause Notice for demand of duty by an officer of the level competent to adjudicate the case.

3.4 Stay Orders passed by CEGAT

3.4.1 A recent amendment in Section 35C of the Central Excise Act, provides that in case a Stay Order is passed by the CEGAT and the case is not finally disposed within a period of 180 days, the stay stands vacated automatically. Similar position is there in respect of the customs cases. It appears that this change was introduced to expedite the disposal of cases since stay orders impact the recovery of revenue. However, looking at it from the point of view of the tax payer and the circumstances governing the grant of stay, it is evident that this provision would work against the interest of the justice and equity. A stay is normally granted when there is merit in the appeal and the operation of the adjudication order would be prejudicial to the tax payers interest. It is logical to assume that the circumstances granting this stay would not materially change in the sixth month period. Hence, if the stay is automatically vacated the tax payer would no doubt file another application for continuance of stay. This would unnecessarily raise the work load of CEGAT.

3.4.2 It is recommended that the relevant provisions should be modified to provide for the finalisation of the case (wherein stay is granted) within a period of six months so far as it is possible to do so. This would act as a signal to the CEGAT to decide the cases in a time bound manner. The provision that the stay is automatically vacated when the case is not finalized in six months should be revoked.

3.5 Appointment of Departmental Counsels

3.5.1 At present the Government appoints Standing Counsels which take up the brief for the revenue when cases are heard by the Tribunal, High Court and Supreme Court. It has been reported that in certain cases involving high revenue stakes or complex law points it is desirable to appoint a counsel from outside the approved panel. This is particularly so, when the opposite side is a big corporate and has at its disposal the best legal brains. It is the view that considering the revenue stakes and the fact that some cases may have long term bearing on revenue, the Commissioners concerned should have the discretion to appoint the special free counsels. Today this is possible though a time consuming procedure requiring the approval of the Ministry. Often, the opposite party manages to get relief through stay, etc., while the process of appointing special fee counsel is not complete. It is the view that the present procedure must change. In this regard, it is learnt that on the Income Tax side the Commissioners are authorized to appoint special fee council upto certain monetary limits (of fees). This system could be followed in the Indirect tax side

3.5.2 It is recommended that suitable measures may be taken to authorize Commissioners of Customs and Central Excise to appoint Special Fee Counsels upto a certain monetary limit. The Chief Commissioners may also be suitably authorized for appointment of Counsels beyond the monetary limit prescribed for Commissioners).

3.6 Institution of SDR/JDR in Settlement Commission

3.6.1 Settlement Commission has been in place for some time. Now increasing number of cases involving high revenue stakes are coming up for settlement. In contrast to the arrangement at CEGAT where the Department has a presence in terms of its representatives, there is no departmental representation at the Settlement Commission. As per the present arrangement, it is the Settlement Commission which is entering into a correspondence with the concerned Customs or Central Excise Commissionerate to get a report whenever a case comes up before it. On their part the Commissionerates follow an ad-hoc approach and at times the departmental view point is not adequately presented. Considering the revenue stakes and the increasing popularity of the Settlement Commission, it appears justified to have an institutional mechanism to represent the department in the cases before the Settlement Commission.

3.6.2 It is recommended that in like manner of CEGAT Departmental representatives should be appointed at the benches of the Settlement Commission. Subsequently, this practice can be replicated in case of Authority for Advance Rulings.

4. Audit related issues

4.1 Issue of demand notices on the basis of audit observations

4.1.1 In order to arrive at some mechanism to reduce disputes, the mechanism of raising of duty demand notices was examined. One of the findings is that the department issues duty demand against the tax payer on the basis of objections and observations of the CAG Accounts. This system appears in order in so far as the duty demands are being issued when the department agrees with the findings of the Audit. However, it is seen that duty demand notices referred to as ‘protective’ demands are also issued even when the department does not agree with the Audit. These are issued to protect the revenue, as otherwise by the time the audit objection is settled between the department and Audit, the duty demand, if merited, may be hit by the time bar under the law.

These duty demands are kept pending in the Call Book for years until the issue is decided between C.B.E.C. and CAG, no decision can be taken.

4.1.2 In this regard it is observed that C.B.E.C. is empowered to issue orders under Section 37B of the Central Excise Act, 1944 and Section 151A of the Customs Act, 1962 laying down the correct classification and valuation of goods. This authority is exercised to ensure uniformity of practice across the Commissionerates. Accordingly, a decision has been taken that when the Audit objection runs contrary to a Section 37 B (or Section 151A) order, no protective duty demand need be issued. This has led to reduction in the issue of protective duty demands which is matter of some relief for the trade and industry. However, the impact has not been significant as the number of Section 37 B or Section 151A orders are not many. On the other hand, C.B.E.C is issuing a large number of clarifications and instructions around the year. Since these are not the specified orders (section 37B or Section 151A) in the event the Audit objection is in contrast to the C.B.E.C. circulars and instructions, the protective duty demands continue to be issued.

Year	**Under 37B (Central Excise)**	**Under 151A (Customs)**
1990	1	Nil
1991	1	Nil
1992	2	Nil
1993	6	Nil
1994	5	Nil
1995	3	Nil
1996	1	Nil
1997	4	Nil
1998	4	Nil
1999	4	Nil
2000	3	Nil
2001	1	Nil
2002	2	Nil

4.1.3 On the subject of enforceability, the Supreme Court has held that C.B.E.C. circulars and instructions are binding on the subordinate officers. Accordingly, there is really no difference between the Section 37B or Section 151A orders and any other Circular or instruction. The subordinate officers are bound to follow both. In the circumstance, having taken a particular stand on matter it is the view that the C.B.E.C., the highest technical authority on matters relating to custom and central excise, should take responsibility for its actions. For no fault of theirs, the tax payer should not get burdened with duty demands. Besides financial implications, the taxpayers lose confidence in a tax administration which does not honour its own instructions.

4.1.4 It is also the view that there is a necessity of increased interaction between the officers of CAG and the custom and central excise department. Such interaction would lead to appreciation of each others view points and the resolution of differences in a harmonious way. It would result in less paper work, reduction in issue of duty demand notices and a tax payer friendly administration.

4.1.4 In order to resolve the above mentioned issues it is recommended that :

(i) **C.B.E.C. should issue instructions that whenever an Audit objection runs counter to its instructions/circulars, no protective duty demand need be issued. This should, however, be complemented by evolving a mechanism to settle the objection with CAG at the earliest.**

(ii) **C.B.E.C. and CAG should identify posts within their organizations to be occupied by the officers of the other department on deputation.** Increased inter-change of officers would lead to better understanding and lessen the differences of opinion.

4.2 Scope of Audit

4.2.1 EA 2000 Audit programme has been a success story all over the country. This has been possible due to the structured method followed in evolving this programme, aided by focused training efforts. This should be further enhanced to include examination of customs issues as well – as part of the Post-Clearance Audit System. However, there is still the apprehension in the minds of the taxpayers that the Audit teams are driven by revenue targets and conduct their business with the objective of raising a demand for duty.

4.2.2 It is recommended that Audit should be participative and a fact finding mission with the objective of guiding the tax payer. The attempt should be to evolve a consensus on the issues. Audit should not be empowered to issue show cause notices for duty demand.

5. Trade Facilitation

5.1 Standing Committee on Procedures

5.1.1 Customs and Central Excise procedures are being changed rather frequently. Invariably, the procedures are framed in consultation with the field officers and there is no apparent involvement of the trade and industry. As a result, each new procedure is invariably accompanied by representations from the tax payers. These are then examined and at times the procedures are suitably modified and at other times no action is taken on the ground that the new procedure must be allowed to settle down. As a result the present system of evolving new procedures, even if these are presumed to be trade friendly, create uncertainty and generates additional work. It is the view that there should be an institutional mechanism to frame new procedures.

5.1.2 Further more, new procedures come into effect from the date they are brought to the notice of field formations. Each instruction contains a direction to the field formations to issue suitable public notices/ trade notices to inform the trade. Not only does this catch the trade by surprise but it may also happen that a procedure has been in force but is not complied with for the reason that the trade may not have come to know about it. Invariably, such situation also leads to compliance issuance and disputes. Also, the Departmental Systems personnel are unable to modify their software, if required. It is the view that this matter requires remedy.

5.1.3 In the circumstance, keeping in mind that the objective of tax administration should be to provide certainty and transparency, **the following recommendations are made in so far as introduction of new procedures are concerned:**

(i) An institutional mechanism, namely Standing Committee on Procedures chaired by Chairman CBEC and including trade and industry representatives, should be established to identify and resolve the problem areas in present procedures and evolve new procedures on a need basis. This Committee should meet once a quarter.

(ii) A new procedure should come into force after minimum 30 days of its announcement.

5.2 Fixing of revenue targets

5.2.1 A major area of concern, both for trade and departmental officers is related to the annual ritual of fixing of Commissionerate-wise revenue targets by the C.B.E.C. There are two issues here. First is the fixing of the target itself. No doubt the targets are necessary for the revenue administration to closely monitor the revenue inflows and it also sensitizes the Commissionerates to their primary responsibility of revenue collection. However, the problem area is that invariably the targets are unrealistically fixed on the higher side. This is revealed on a perusal of the performance viz. a viz. the targets and it is seen that it is an exceptional year when the targets are achieved. It is also reported that the targets are fixed for the total revenue, ignoring that the major share is on account of revenue from POL, which is largely, even today, the subject matter of Government policies on pricing. As a result, there is tremendous pressure on the Commissionerates to achieve the unrealistic targets.

5.2.2 An outcome of the revenue target fixing exercise is that on the customs side the Commissionerates invariably clamp down on disbursal of drawback and refunds during the last quarter of the financial year. This happens since the disbursal is treated as an outflow of revenue and the net revenue realised comes down. Importers are also made to deposit customs duty in cash instead of using DEPB. Similarly on the central excise side the tax payers are 'persuaded' to pay duty through cash (PLA) and not use the accumulated Cenvat credit for the same. Refunds are also stopped. These are extra legal measures. As seen, the Commissionerates tend to raise all sorts of technical objections on the drawback and refund claims so that the disbursal does not take place during the financial year in question. This entire exercise is avoidable as it is basically revenue neutral. The withheld amount (of drawback and refunds) is promptly released the beginning of the new financial year. Also at times the tax payer is encouraged to make excess payment of duty with the promise that the same would be refunded at the beginning of the new financial year. In fact for these reasons, on the central excise side there is hardly any revenue realisation (in PLA) in the first quarter of the new financial year since the tax payers use the blocked Cenvat credit to pay the duty.

5.2.3 The present system of withholding drawback, refunds and not allowing the central excise tax payers to use Cenvat credit is disturbing. Drawback is an export facilitation measure and denial or withholding drawback causes a set back to the export efforts. Actually the Commissionerates must be encouraged to disburse drawback and facilitate increased exports. Similarly withholding of refunds and not allowing utilization of Cenvat credit to pay duty create cash flow problems for the trade and adversely affects business by either holding up clearances or puts tax payers to severe financial pressure. It is high time that it is realised that payment of duty through Cenvat credit is also duty realization.

5.2.4 On a careful examination of the matters **the following remedial action is recommended:**

(i) **Revenue targets must be fixed realistically. The target must be broken into POL and Non-POL which would enable the Commissionerates to make realistic attempts to reach the target through legal measures and trade facilitation.**

(ii) **On the customs side, as an export facilitation measure, the revenue target should be fixed by including Drawback disbursed and refund sanctioned. This will ensure against blockage of Drawback and refunds. It would also encourage the Commissionerates to release Drawback in order to meet the target.**

(iii) **On the central excise side the revenue target should take into account duty paid through both Personal Ledger Account (PLA) and Cenvat credit. Refunds sanctioned should also be taken into account. This will ensure against stoppage of payment through Cenvat during revenue drive and withholding of refunds.**

5.2.5 The above measures would boost tax payers confidence in the administration and also reduce the pressures on the departmental officials. All in all a healthy tax compliant environment would be created.

5.3 Execution of Bonds

5.3.1 A number of Committees in the past have noted that the execution of bonds for various purposes under the customs and central excise law has rarely served any purpose, as there was hardly any occasion when such bonds have been enforced. The reason is that the liability for payment of duty is statutory and not contractual. Irrespective of whether a bond is executed or not, any recovery from a tax payer or another person can only be made if the provisions of the law are satisfied; and if a liability does arise under the provisions of the law, it is enforceable on the authority of the law itself, and bonds will not serve any additional purpose.

5.3.2 It is the finding that insistence upon execution of bonds only increases the paper work and the cost of compliance. The Government does not gain any additional advantage in terms of securing the revenue. On the other hand securities in the form of bank guarantees do serve a purpose as it imposes discipline in view of the fact that the purpose for which it is furnished must be completed within the specified period. Also it ensures prompt realization of revenue without the process of civil proceedings in a court of law, as required for a bond. Hence, the system of execution of bonds is required to be dispensed with.

5.3.3 It is recommended that the execution of bonds should be dispensed with. Instead, where necessary, a security in the form of a bank guarantee may be taken.

5.4 Harmonization of commodity classification

5.4.1 At present, various Government departments and agencies use their own methods of classification of the goods for taxation or statistical purposes or for deciding the importability or exportability or for any other purpose. For instance, DGFT, Customs, Central Excise, Directorate General of Commercial Statistics and Intelligence, State Sales Tax departments, Central Statistical organization etc. all use different commodity classification codes. Except Customs the codes of the other agencies are not aligned with the internationally adopted HSN.

5.4.2 Multiplicity of classification codes causes hardship to the trade and industry besides coming in the way of establishing a common market. Internationally a common classification is adopted for all trade related transactions. Common classification helps in simplifying procedures and documentation and facilitates trade. It also encourages increased use of electronic data processing which is otherwise not possible. Common classification codes also help in obtaining specific data on need basis more easily and sharing its between various agencies.

5.4.3 It is understood that C.B.E.C. has taken the initiative to prepare an 8-digit Common Commodity Classification Code for both central excise and customs as a standard unit of measurement for all trade related activities, in consultation with other concerned Ministries and Departments. This is appreciated as a step in the right direction.

5.4.4 It is recommended that the 8-digit Common Commodity Classification Code should be implemented at the earliest and latest by 1st April 2003. This should be used by all other agencies (DGFT, DG, CIS, custodian, etc.) also.

5.5 Standardization of service standards

5.5.1 Besides the need for tax payer friendly procedures there is also the need for uniform application of such procedures. It is often reported that different Custom Houses and Central Excise Commissionerates have different practices which is not know o the trade and industry and, at times, gives rise to compliance issues. Hence, it is necessary that there should be standardization of procedures. Also it is very important that there is in place an institutionalized mechanism to periodically review the procedures and the way work is done. It is noticed that very often the systems are personality based and upon the transfer of an officer the new

incumbent starts his own procedures and the system changes over night. No doubt the tax payer is legally bound to collect the duty and the tax administrators to collect the same. However, the tax collectors must appreciate that the tax payer is a customer for them. In other words, it is important to set in place high standards of service for customer satisfaction and maintain them over the time. Standardization of the procedures across the Commissionerates in different parts of the country is equally important. This would improve compliance, certainty and tax payer confidence.

5.5.2 It is recommended that a time bound programme should be initiated for the ISO Certification of all Custom Houses and Central Excise Commissionerates – to be started in 2003 and completed by 1st January 2005. This presupposes standardization of procedures.

5.6 Banking

5.6.1 Banks play a critical role in the tax administration through facilitating payment of duty and its reconciliation. So far the payment of duty is being made in the nominated public sector banks. At present, the policy of one Commissionerate - one bank is followed. This has obviously given rise to complaints of monopolistic behaviour and poor service. The move to EDI based reconciliation of duty payment has also not picked up so far, though certain positive moves have been made in this direction. Accordingly, in order to exploit the facilities of modern automated banking for enhanced convenience of the tax payer and the revenue **the following recommendations are made :**

(i) **Multi-banking should be encouraged by recognizing new banks including private sector banks to handle receipt of Government revenue.**

(ii) **A pre-condition to the appointment of the banks should be establishment of an EDI link with the Custom House/ Central Excise Commissionerate to facilitate reconciliation of revenue.**

(iii) **Banks should have the responsibility of issue/ transfer of refund checks/ amount direct to the tax payers bank account on the basis of a release advise form the Commissionerate.**

(iv) **Option of payment of duty through debit card and the like should be explored for implementation.**

(v) **Appointed banks should give the tax payer the option of internet banking for deposit of duty and transfer of funds.**

5.7 Uniformity of interest rates

5.7.1 At present, there is great disparity between the interest payable by the tax payer (to the department) on the duty short levied or short paid or not levied or not paid and the interest payable by the Department (to the tax payer) on the delayed refunds. Whereas the tax payer is required to pay interest at the rate of 15% per annum the Department pays interest at the rate of 8%. Not only is there no equity, the disparity causes concern that the Government is not treating the tax payer as an equal partner in the economy. In fact, there is also an absence of uniformity in the rate payable by the tax payer. For instance, in the case of warehoused goods the interest payable is 24%. Whereas the vires of charging higher interest and giving lower interest is not questioned it appears that in the interest of boosting tax payer confidence in the fairness of tax administration the disparity need to be removed. Also there is some confusion whether the interest payable is simple interest or compounded. Finally, it is contended that the rate of interest is too high and must move with the PLR.

5.7.2 It is recommended that :

(i) **The interest payable by the tax payer and the department may be made uniform.**

(ii) **The interest so determined must be uniformly applied in each and every situation where it is decided to charge interest.**

(iii) **The law should itself clarify that the interest is simple and not compounded.**

(iv) **The rate of interest should be reviewed each year at the time of the Budget and brought in line with the prevailing market rate. Rate determined should not be changed during the year.**

5.8 Unjust Enrichment

5.8.1 The Constitutional validity of Section 11B, as amended in 1991, has been upheld by the Supreme Court in the case of Mafatlal Industries. However, it is seen that in certain cases which have been judicially held to be outside the scope of the said provisions the tax payers are asked to produce all sorts of documents and establish the duty burden has not been passed on to their buyers. This causes harassment. Without going into the merit of the legislation it appears that the net result has been to reduce tax payer satisfaction, increase contact points and discretion on the part of the departmental officers.

5.8.2 In the circumstance, **it is recommended that in order to reduce the transaction cost and avoidable interface between the industry and the Department, the provision of unjust enrichment may be amended to the effect that it would not apply when the refund arises in respect of provisional assessment, pre-deposit of duty and goods captively consumed.**

5.9 Non-Receipt of Applications

5.9.1 Presently there are no Dak receipt counters at most of the Excise Offices. As a result a tax payer is not able to deposit any application/document and get an acknowledgement. The problem is more acute in Central Excise Range offices as the Excise Inspector/Range Superintendent may not always be available in their office.

5.9.2 It is recommended that the system of receipt and acknowledgement of dak and correspondence should be reviewed and it should be ensured that a receipt counter manned at all hours during office hours is positioned at an easily accessible place. In the case of small offices where there is a paucity of staff, a Mail box should be provided and acknowledgements issued next day. Every correspondence should be acknowledged and timely replies sent.

5.10 Codification of circulars/ instructions

5.10.1 At present there is no practice of codifying the many instructions and circulars issued by the C.B.E.C. from time to time. As a result there is confusion in the trade and industry and also the departmental officers regarding the latest position on any aspect of law and procedure. This leads to absence of uniformity besides giving rise to disputes. It appears that the solution lies in organizing the issue subject-wise booklets including all relevant circulars and instructions. This would also help in weeding out those which are redundant. Importantly, this should not be a mere reproduction or compilation of Circulars and instructions. Effort should be made to state the legal position in simple and clearly understood language. Once this is issued future changes should simple be inserted at the relevant page. For instance, future instructions should mention 'replace paragraph AB on page XYZ'. This mechanism would ensure updated instructions/procedure are available at all times with the trade and industry and the departmental officers.

5.10.2 It is recommended that C.B.E.C should codify all circulars/ instructions in one cover, subject-wise by 1st April 2003.

5.11 PAN as the common identifier in taxation matters

5.11.1 It is essential that for identification of the tax payers and also for exchange of information on the tax payer between different government departments/agencies, there should be a common identifier. It is observed that C.B.E.C has already started using the PAN issued by the Income Tax department as the common identifier for central excise purposes. This should be extended to customs also.

5.11.2 It is recommended that C.B.E.C should ensure by 1st April 2003 that all its tax payers are entered into its computer record on the basis of PAN.

5.12 Search, Seizures and Summons

5.12.1 In order to bring the focus back on transparency and accountability it appears necessary to introduce certain changes in the present system of search, seizure and summons. These are expected to restore the confidence of the tax payer in the tax administration. **The recommendations are as follows:**

(i) **Central Excise officers should not be required to wear uniform. This would change the mind set on both side (Department and taxpayer) and contribute to freer communication.**

(ii) **Videography should be done whenever statements are recorded and searches made.**

(iii) **Presence of counsel should be encouraged while recording statements**

(iv) **Seizure of documents and records adversely affect the conduct of business. Accordingly, these should be mandatorily released upon the completion of adjudication.**

6. C.B.E.C. Administration

6.1 Tenure of Chairman, C.B.E.C.

6.1.1 The Chairman, C.B.E.C is in charge of collection of major share of the total tax revenues of the Government. He is in overall charge of administering the tax administration in respect of Customs, Central Excise and Service Tax and some element of Narcotics. Being the head of the Customs Administration Chairman, C.B.E.C. represents the country in all International forums such as WCO. In this regard the continuity in the post of Chairman. C.B.E.C. is of critical importance.

6.1.2 In this regard it is observed that invariably an officer is appointed as Chairman., C.B.E.C when he has scarcely a few months to go before superannuating. As a result he is hardly in a position to give long term direction to the department. The officer is not able to give shape to policies of long term importance to the revenue and an element of ad-hocism creeps in, which is detrimental to the tax administration. Consistency and long term vision are essential for a administration, and much more important in tax administration.

6.1.3 As long term measures to give stability and direction to the indirect tax administration, which is so critical for the economic well being of the country it is recommended that Chairman, C.B.E.C. should be selected on criterion of merit cum seniority and once appointed (at whatever age before 60 years) should have a minimum tenure of 2 years.

6.2 Financial autonomy

C.B.E.C. has no financial autonomy and has to obtain financial sanctions for each expenditure from the Financial Adviser (Finance) who is entrusted with the Budget of the Department. All the field formations of the C.B.E.C. are necessarily required to first take the clearance of the C.B.E.C. in respect of their expenditure proposals, and then obtain the sanction of the Finance wing. Resultant delays often impact the projects which works against efficient tax administration and tax payers facilitation suffers. It is the view that as a major revenue earning Department, C.B.E.C. and its Commissioners should be given financial autonomy.

It is recommended that C.B.E.C. and the Chief Commissioner should be given financial autonomy and financial powers of the Commissioners may be enhanced.

6.3 Improving office infrastructure

6.3.1 Customs and central excise officers and the taxpayers are partners in the economic development of the country through the payment and collection of taxes. It is often the case that the taxpayers – importers, exporters, corporate heads, foreign nationals have to visit the customs and central excise offices for the conduct of the tax related businesses. Reportedly, the majority of offices are in bad shape in terms of basic infrastructures and amenities. Most are also in rented accommodation and there is little scope for carrying out improvements. Not only does this distance the tax payers from the tax administrators it also create an unhealthy mind set in the officers who work in unsatisfactory environment. Therefore, it is necessary to develop a corporate culture which is customer friendly by improving the office accommodation of the customs and central excise officers.

6.3.2 It is recommended that the C.B.E.C. should evolve a time bound strategy to improve the office accommodation as follows.

(i) A Task Force should be set up to standardize the requirement of a modern customer friendly office (model office) which should furnish its report by 31st December 2002. The report should include financial estimates.

(ii) Based on the report of the Task Force, the C.B.E.C should ask the Chief Commissioners to identify the shortcomings in each of their offices in their jurisdiction by 1st April 2003 and send a consolidated proposal to C.B.E.C.

(iii) By 1st August 2003, a model Commissionerate (Customs and Central Excise), Central Excise Division and Central Excise Range office should be set up in each of the Chief Commissioner zones.

(iv) C.B.E.C. should seek financial sanctions and replicate the model offices by upgrading the existing offices and purchasing land, building, etc., where necessary. The entire exercise should be time bound, so that by 2005, modern offices are in place in each Commissionerate.

(v) Modernisation of C.B.E.C and its Directorates should be done by setting up a Task Force to identify the areas of improvement and thereafter taking time bound action.

(vi) Facility of video conferencing between the C.B.E.C. and the Chief Commissioners should be created.

(vii) Research capabilities in TRU should be enhanced, particularly in the context of emerging challenges once VAT is introduced and there is integration of Service Tax and Central Excise.

7. Human Resource Development and training

7.1 Human resource development is an important ingredient in administration. Training is essential for upgrading skills and change in mind-set for tax payer facilitation. This is all the more important when the environment in terms of policies and procedures and tax payer expectation is changing rapidly. C.B.E.C. is already having an institutionalized training programme run by NACEN and the Commissionerates also conduct in-house training programmes from time to time. However, the common perception is that much more need to be done in the training the officers, particularly at the cutting edge, in two key areas. The first is the use of computers and the second is the change in mind set. Particular attention needs to be paid to change in mind set at the cutting edge.

7.2 It is also important to appreciate that a long term institutional arrangement is necessary for sustained progress in human resource development. Once the resource centers are identified, C.B.E.C. should enter into a Memorandum of Understanding with them so that the continuity of the arrangement is maintained. Accordingly, **it is recommended that :**

(i) The infrastructure available for training at regional level should be upgraded. Training should be accorded priority and sufficient infrastructure needs to be created to impart training especially in areas of use of information technology, managerial skills and attitude changes at the cutting edge level. Each Chief Commissioner of a Zone should have an in-house training center equipped with latest training aids and adequate infrastructure to take care of the training requirements in addition to the proposed regional training centers in the Cadre Restructuring proposal.

(ii) The C.B.E.C. should make full use of the technical assistance of multilateral agencies such as World Bank, Asian Development Bank and World Customs Organization, especially their reform and modernization projects and programmes, that support customs reform through training in diagnostic study and in customs needs analysis. These help domestic customs authorities implement the required changes that have been identified and evaluate their impact on trade facilitation and customs compliance.

(iii) A relevant UN body to be contacted for assistance is the Center for Facilitation of Procedures and Practices for Administration, Commerce, and Transportation (CEFACT-UN/ECE). Close link should also be maintained with UNCTAD which uses Automated System for Customs Data and Management (ASYCUDA) and Advance Cargo Information System (ACIS).

(iv) Group 'B' and 'C' officers who are at the cutting edge should be given training to change the mind-set for bringing about pro-client/customer orientation.

(v) Entry level training to officers who are promoted from Group 'B' to Group 'A' should be mandatorily provided at NACEN, for a minimum period of 3 months covering both Customs & Central Excise. This is essential as officers promoted from Customs are often posted to Excise Commissionerates and vice versa.

(vi) Cadre training should be compulsory in respect of all Group 'A' officers and periodical refresher courses should be organized to impart training of managerial skills.

(vii) Senior Group 'A' officers of the rank of Commissioners and above should be deputed to attend Executive Development Programmes in premier management institutes in the country such as, IIM, IIFT, ASCI etc.

(viii) Group 'A' officers should be exposed to the tax administrations abroad and international best practices in training followed to enhance their skills.

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CHAPTER 8

VALUE ADDED TAX AND SERVICE TAX

1. Value Added Tax

1.1 The implementation of VAT is intrinsically linked to the administration of the Indirect Taxes, particularly Service Tax, and the tax to GDP ratio on account of these taxes. Therefore, it is necessary to examine the salient features of the proposed dispensation in respect of VAT. The matter assumes importance in view of the limited time now left for the proposed implementation of State VAT, from 1st April 2003. At the same time, it is appreciated that the entire matter of implementation of VAT is currently at a crucial stage and a number of initiatives are under examination by the Empowered Committee, which has made significant progress during last one year. Hence, at this juncture it would not be appropriate or desirable for this Task Force to take a final view on the modalities and implementation of VAT. Therefore, only certain preliminary observations are being made which are considered relevant for the successful introduction of the proposed scheme of VAT.

1.2 Implementation of VAT

1.2.1 There is a strong expectation of the trade and industry that the promised State VAT is implemented from 1st April 2003. At the same time, there is some apprehension that little time in now left and a lot of ground has to be covered. Basically, there is concern about the introduction of uniform legislations, regulatory procedures, registration of dealers, computerisation, training and orientation, designing of forms and documents, simplified assessment procedures etc. No doubt, State Governments are seized of the urgency and steps are being taken for the timely implementation of State VAT. However, it is desirable to clear apprehensions and uncertainty.

1.2.2 It is recommended that the State Governments should announce a time bound action plan for the implementation of VAT by 1st April 2003.

1.3 VAT as a unifying force for all State-level taxes

1.3.1 At present, each State levies multiple taxes on the same item in different names or at different stages e.g. Entry Tax, Luxury Tax, etc. Whereas the Sales Tax is a first-point levy, on a lower value at a relatively lower average rate, the proposed VAT will be a multi-point collection at a much higher RNR (10% or 12.5%) on the last sale, which will be of a higher value. Hence, if States levy over and above VAT any other tax, such as Entry Tax, Luxury Tax, Special Additional Tax, etc. this will only worsen the malady of varying taxes and rates, the avoidance of which is amongst the primary objectives of VAT. In other words, no useful purpose would be served by introducing a multi-point VAT which simply replaces the present single-point Sales Tax alone. Such a VAT will be regressive and make the industry uncompetitive. Therefore, it is necessary that State VAT should be the tax to unify all the State-level taxes i.e. Sales Tax, Purchase Tax, Turnover tax, Works Contract Tax, Entry Tax, Special Additional Tax, etc. should all be covered under State VAT. Same principle should govern Central VAT.

1.3.2 It is recommended that VAT should be one tax to replace all taxes on goods and services.

1.4 Constitutional guarantees regarding implementation

1.4.1 There is an apprehension that unless Constitutional guarantees of any agreement between the Centre and States are provided, long term stability to VAT system may not be ensured. VAT system runs the risk of getting off track on account of levy of multiple taxes by some of the State Governments in future. Therefore, some mechanism backed by Constitutional provision is required to facilitate a binding agreement between States as well as between Centre and States. A suggested formulation is the insertion of an Article (perhaps in the fashion of erstwhile Article 278 in Part XII in the Constitution) on the following lines:

"Notwithstanding anything in this Constitution, the Governments of any number of States, whether amongst themselves or with the Government of India, may enter into any agreement with respect to the levy and collection of any tax or duty leviable by them, and upon the execution of such agreement and during the period in which such agreement is in force, the power of such States to make any laws to levy any tax or duty shall be subject to the terms of such agreement."

1.4.2 It is recommended that a constitutional guarantee should be in place for the implementation of State VAT.

1.5 Uniformity of definitions

1.5.1 Reportedly, some of the State VAT legislations are not based upon the model legislation and, as a result, there is variance in the definitions of dealers, distributors, etc. Even the charging section is not uniform. It is expected that this will give rise to disputes.

> ***1.5.2 It is recommended that an attempt should be made for uniformity of legislation. Further, the States must also agree on uniform rates of taxation and uniform classification based upon HSN.***

1.6 Compensation to States

1.6.1 One of the issues under discussion is the compensation to be given to the States upon the removal of Sales Tax and the introduction of State VAT, in the event the tax revenue drops due to the change over. Various formulation are being worked out and reportedly a consensus has not been worked out so far. In this regard it is observed that the experience world-wide has been that a move to VAT results in higher revenue realisation. Therefore, there is no cause for concern. Nevertheless if such eventuality arises any compensation should be through revenue mobilization (by the States) from specified services and not through Budgetary support.

> ***1.6.2 It is recommended that issue of compensation, if it arises, must be tackled through mutually acceptable mechanism of additional resource mobilization and not through Budgetary support.***

2. Service Tax

2.1 Service sector makes a significant contribution to the GDP and is a potential source of appreciable revenue in the coming years. Linkage of Service Tax with VAT is currently under discussion at various forums, including the Empowered Committee on VAT and a final view is yet to emerge. For this reason, it is desirable to allow a consensus to emerge and, therefore, only few important issues are being addressed.

2.2 Implementation of Service Tax

2.2.1 Keeping in view the necessity to expand the coverage of Service Tax, certain postulates are required at this stage for providing efficient tax administration. Further, the eventual integration of Service Tax with Central Excise is also to be kept in mind. In this background the following recommendations are made :

(i) **Comprehensive Service Tax** - In due course Service Tax should be comprehensive and there should be no selectivity of items. However, it would be in order to identify certain minimum number of services which are not subject to Service Tax. Examples of these services are public utilities, social services (health, education, etc.) and Sovereign services rendered by the State.

(ii) **Credit of duty paid to be allowed to service sector** – A start has been made in allowing tax credit to service providers who can now take credit of the tax paid on the services received. However, the input service and the output service have to be in the same category. It is necessary to expand this scheme to reduce the cascading effect of taxes. Accordingly, the scheme of tax credit should be extended to include all services. In other words, tax credit of services received should be available to a service provider even if the two are not in the same category. At the second stage, the Service Tax credit should be amalgamated into the Cenvat credit scheme on goods. Thus, there should be integration of the Cenvat credit and Service Tax credit schemes.

(iii) **Service Tax as the first E-tax** - In order to facilitate voluntary tax compliance and to eliminate tax payer inconvenience, Service Tax should be implemented as the first electronic tax (E-tax) with self assessment and on-line web based connectivity between the department and the tax payers.

(iv) **Separate enactment for Service Tax** – Presently Service tax is levied through the provisions of the Finance Act, 1994 and Service Tax Rules, 1994. With the progressive expansion of the Service Tax coverage it is necessary to enact a specific legislation to administer the tax. Once this is done there would be increased legal clarity and better administration. Eventually, Service Tax legislation and Central Excise legislation must be integrated.

ANNEXURE 'A'

	CUSTOMS RATE STRUCTURE			
Ch.No.	**Description of goods**	**Duty 2002-03 BASIC**	**2003-4**	**2004-5**

1		Live animals :			
1		Bovine animals, ducklings, rabbits and pureline poultry stock etc	5%	5	5
1		Grand Parent poultry stock & Donkey stallions	25%	25	20
1		Horses & other animals	30%	25	20
2		Meat and edible meat offals	30%	25	20
	2	Carcases and half -carcases	30%	25	20
	2	Poultry meat (Chicken leg)	100%	#	#
	3	Fish, crustaceans and other acquatic invertebrates	30%	25	20
4		Dairy Products :			
	4	Milk powder, of a fat content by weight not exceeding 1.5% or of a fat content exceeding 1.5% by weight but not containing sugar or other sweetening matter (60% is TARIFF rate)	15%	10	10
4		Other Milk powder	60%	#	#
4		All other dairy products, eggs and honey	30%	25	20
	4	Cheese/ whey/ butter	30%	25	20
	4	Bird's egg and yogurt	30%	25	20
5		Products of animal origin, not elsewhere specified :			
5		Pancreas.	5%	5	5
	5	Animal frozen semen and specified animal frozen semen equipment	5%	5	5
5		All other goods of animal origin (Animal gland, animal organs, ivory etc.)	30%	25	20
6		Live trees and other plants, etc.			
6		Planting materials such as seed, tubers and bulbs	5%	5	5
6		Bulbs, tubers, Tuberous roots, corms, crowns, chickery plants, trees, shrubs & bushes of all kinds, unrooted cuttings, grafts, mushrooms spawn	5%	5	5
6		Cut flowers, flowers buds, bouquets and foliage etc for ornamental purposes	30%	25	20
7		Edible vegetables and roots and tubers:			
	7	Onions	5%	5	5
7		Seeds & Tubers and flowers for planting purposes	5%	5	5
7		Dried leguminous vegetables (pulses)	10%	10	10
7		Dried vegetables, whole, cut, sliced, broken or in powder	30%	25	20
7		All other goods (fresh vegetables etc.)	30%	25	20
8		Edible fruit and nuts :			
8		Cashew nuts in shell	0%	0	0
8		Planting materials such as seeds, tubes and bulbs	5%	5	5
8		Miscellaneous Fresh fruits like Pomegranates of bedana variety	15%	15	15
8		Almonds in shell	Rs.35/ kg.	Rs.35/ kg.	Rs.35/ kg.

8	Almonds shelled	Rs.65/ kg.	Rs.65/ kg.	Rs.65/ kg.
8	Fresh plums & sloes	25%	25	20
8	Fresh grapes	30%	#	#
8	Dried grapes	105%	#	#
8	Dates	30%	25	20
8	Coconuts	70%	#	#
8	Strawberries/ raspberries/ blackberries/ mulberries/ apricot/ mixture of nuts	30%	25	20
8	Areca nuts	100%	#	#
8	All others (bananas, mangoes, organges, melons, papays etc.	30%	25	20
9	Coffee, Tea and Spices :			
9	Coffee	100%	#	#
9	Tea	100%	#	#
9	Seeds of caraway, thyme, bay leaves, mate	30%	25	20
9	All others (Pepper, cinamon, cloves, ginger, spices etc.)	30%	25	20
9	Pepper, cloves, cardamom	70%	#	#
10	Cereals			
10	Rice in the husk (paddy) and husked (brown) rice, broken rice	80%	#	#
10	Semi-milled or wholly milled rice	70%	#	#
10	Wheat, maize(corn) seed, spelt, sorghum, millet	50%	#	#
10	Maize(corn) seed under TRQ	15%	10	10
10	Rye, barley, oats, buck wheat, canary seeds, meslin and other cereals	0%	5	5
11	Products of milling industry; malt; starches; inulin; wheat gluten	30%	25	20
12	Oil seeds, medicinal plants, etc.			
12	Vegetable seeds, other planting materials	5%	5	5
12	Beet, seeds, seeds of forage plant, etc.	15%	10	10
12	Jigat, Jaborandi leaves; plants used in perfumery, pharmacy etc., coca leaves, poppy straw	15%	10	10
12	Copra	70%	#	#
12	All other goods (soya beans, groundnuts, linseed, rapeseed, other oil seeds, hop cones, sugar beet, sugar cane, swedes, mangolds, etc.)	30%	25	20
13	Lac, gums, resins and other vegetable saps and extracts:			
13	Vegetable saps and extracts (other than of opium, liquorice, hops and pyrethrum)	15%	10	10
13	Oleopine resins	15%	10	10
13	Pectic substances, pectinates and pectates	15%	10	10
13	All other goods (lac, gums, resins, mucilages and thickeners)	30%	25	20
14	Vegetable plaiting materials, vegetable products not elsewhere	30%	25	20

	specified			
15	Animal or vegetable fats and oils and their clevage products; prepared edible fats; animal or vegetable waxes			
15	Fats of bovine animals, sheep or goat	15%	15	15
15	Wool grease ; lanolin etc.	15%	10	10
15	Soyabean oil, crude or refined	45%	#	#
15	Rapeseed oil, colza or mustard oil, crude or refined upto 150,000 mt in a fin yr	45%	#	#
15	Rapeseed oil, colza or mustard oil, crude or refined (others)	75%	#	#
15	Palm oil, ground nut oil, sunflower/ safflower oil, cocounut oil and other oils, crude	65%	#	#
15	Palm oil, ground nut oil, sunflower/ safflower oil, cocounut oil and other oils, refined	85%	#	#
15	All other goods (animal fats and oils, vanaspati, industrial grade vegetable oils, glycerine, vegetable waxes etc.)	30%	25	20
16	Preparations of meat, of fish, or of crustaceans, molluces or other acquatic invertebrates			
16	Sausages and similar products of meat, meat offal or blood, other prepared meat, meat offal or blood of fowls of the species Gallus domesticus	100%	#	#
16	Other preparations of meat, of fish, crustaceans, molluscs etc	30%	25	20
17	Sugar and sugar confectionery :			
17	Sugar	60%	#	#
17	Molasses	15%	10	10
17	Lactose and lactose syrup	25%	25	20
17	All other goods (maple sugar or syrup, glucose and glucose syrup, Confectionery)	30%	25	20
18	Cocoa and cocoa preparations:			
18	Cocoa based food preparations for infant use	15%	15	10
18	Cocoa beans	30%	25	20
18	All other goods (Cocoa paste, powder, chocolates and other cocoa preparations)	30%	25	20
19	Preparations of cereals, flour, starch or milk; pastrycooks' products :			
19	Preparations for infant use	30%	25	20
19	All other goods (Malt based and other food products such as pasta, noodles, corn flakes, bread, pastry, rusk, biscuits, etc.)	30%	25	20
20	Preparations of vegetables, fruit, nuts or other parts of plants	30%	25	20
21	Miscellaneous edible preparations :			

21		Compound Alcoholic preparations for manufacture of beverages	160%	Bound rate	Bound rate
21		All other goods (Misscelaneous edible preparationssuch as instant coffee, instant tea, yeats, sauces, soups and broths, ice cream, protein concentrates, etc.)	30%	25	20
	21	All goods falling under Chapters 8,12,13 and 15 to 21 imported by hotel industry	25%	25	20
22		Beverages, spirits and vinegar			
	22	Angostura bitters	5%	5	5
22		Waters incl. mineral waters and aerated waters; vinegar and its substitutes	30%	25	20
22		Wines for sacramental use	30%	25	20
22		Beer, grape must, wines, vermouth, other fermented beverages	100%	Bound rate	Bound rate
22		Undenatured ethyl alcohol	182%	166	150
22		Denatured ethyl alcohol and other spirits, denatured	15%	10	10
22		Whiskies, rum, gin, vodka, liquers and cordials, etc.	182%	166	150
23		Residues and waste from food industries; prepared animal fodder:			
23		Flours, meals and pellets, of fish or of crustaceans, molluscs and other acquatic invertebrates, unfit for human consumption and prawn feed	5%	5	5
23		Brans of rice, oil cakes and other solid residues, dietary soya fibre	15%	10	10
23		All other goods (Residues of waste and food industry, animal feeds, etc.)	30%	25	20
24		Tobacco and manufactured tobacco substitutes	30%	25	20
25		Salt, sulphur, earths and stone, plastering materials, lime and cement :			
25		Crude or unrefined sulphur	5%	5	5
25		Natural calcium phosphate, natural aluminium calcium phosphate and phosphatic chalk	5%	5	5
25		Spodumene, strontium ore, natural boron ore	15%	10	10
25		DBM, fused magnesia and sea water magnesia for the manufacture of refractories etc.	15%	10	10
25		Cement clinkers and ordinary portland cement	20%	20	20
25		Marble, Granite and other Cement	20%	20	20
25		All other goods like Unroasted Iron Pyrites, Quartz, Kaoline, Other clays, Chalk, Natural Barium, Pumice, Emery, Slate, Dolomite, Gypsum, Mica, Natural Steatite, Borates. Felspar, Lime stone, salt, sandstone, pebbles, asbestos.	25%	20	10
25		Natural graphite	30%	20	10
26		Ores, slag and ash :			
	26	Zinc ash, copper ash	15%	10	10

26	Hard zinc spelter, zinc dross and copper mill scale	30%	20	10
26	Ores & concentrates, ash & residues(other than Copper)	5%	5	5
26	Copper ore & concentrates	5%	5	5
27	Mineral fuels, mineral oils, and other petroleum products :			
27	Electrical energy	0%	0	0
27	Coking coal of ash content below 12%	5%	5	5
27	Coking coal of ash content 12% or more	15%	10	10
27	Coal (non coking), Lignite, Peat	25%	20	10
27	Coke	15%	15	10
27	Coal gas and coal tar distillates, pitch and pitch coke	30%	20	10
27	Carbon black feedstock	25%	20	10
27	Naphthalene	25%	20	10
27	Phenol	25%	20	10
27	*PETROLEUM*			
27	Crude petroleum	10%	10	5
27	Naphtha	10%	10	10
27	LNG	5%	5	5
27	MS,	20%	15	10
27	HSD	20%	15	10
27	ATF, FO, LSHS	20%	15	10
27	LPG	10%	10	10
27	Petroleum gases (other than LNG); Natural bitumen & asphalt; oil shale; tar sands; asphaltic rocks	10%	10	10
27	SKO (for PDS)	10%	10	10
27	SKO for parallel marketing	20%	15	10
27	Naphtha, F.O. etc. for fertiliser manufacture	0%	10	10
27	Other petroleum products	20%	15	10
27	N-Paraffin for manufacture of LAB	20%	20	10
27	Kerosene for N-Parafine / LAB	5%	5	5
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare earth metals, of radio active elements or of isotopes-			
28	Chemicals used in the manufacture of Centchroman (anti-fertility drug)	0%	5	5
28 or 38	Silicon in all forms for solar cells/ panels	0%	0	0
28	Phosphoric acid for fertliser (end use)	5%	5	5
28	Anhydrous Ammonia, ammonia in aqueous solution	5%	5	5
28	Zirconium oxide and yttrium oxide, for the manufacture of raw cubic Zirconia	15%	15	10
28	Iodine	15%	10	10
28	Radio active elements and salts, Enriched Uranium and heavy water	15%	10	10
28	Litharge for manufacture of glass shells for CPTs	15%	15	10
28	Soda Ash	20%	20	10

28	Specified leather chemicals	25%	20	10
28	All other inorganic chemicals	30%	20	10
28, 29 or 30	188 specified formulation or bulk drug	5%	5	5
29	Organic chemicals:			
29	DL-2 Aminobutanol, Diethyl Malonate, Triethyl Orthoformate, Acetobutrolactone, Thymidine, Artemisinin	5%	5	5
29	Nine groups of goods used in manufacture of ELISA kits	5%	5	5
29	Life saving drugs or medicines, bulk drugs used in the manufacture of life saving drugs/ medicines	0%	0	0
29	Raw materials, intermediates,& consumables supplied by UNICEF for manufacture of DTP vaccines	0%	0	0
29	Maltol, for manufacture of deferiprone	0%	0	0
29	Giberellic acid	5%	5	5
29	Codeine phosphate and Narcotine imported by Government Opium and Alkaloid Factories	5%	5	5
29	Paraxylene	10%	10	10
29	35 specified veterinary drugs	15%	10	10
29	Acyclic hydrocarbons, Cyclohexane, Benzene, Toluene, Xylenes, Styrene, Ethylbenzene, Cumene, Ethylene dichloride, chloroethylene and acriloritrile	15%	10	10
29	L Lysine, L Lysine monohydrochloride, DL- Methionine or Methionine Hydroxyanalog of animal feedgrade	15%	10	10
29 / 30	Specified bulk drugs and their formulations (nilutamide, sodium fusidate, low molecular weight heparine and erithropoietin, cyclosporine, doxorubicin HCl, azathioprine, enaxoparin)	15%	10	10
29	DMT, PTA and MEG	20%	15	10
29	Caprolactum	20%	15	10
29	7-ACA, Pseudoionone, Methyl tertiary butyl ether	25%	15	10
29	Acetic acid, adipic acid, epichlorohydrin, tartaric acid and Hydantoin	25%	15	10
29 / 30	17 Specified bulk drugs or formulations (antibiotic/ anti cancer)	25%	15	10
29	Phenol	25%	20	10
29	Specified leather chemicals	25%	20	10
29	Methanol	25%	20	10
29	All other organic chemicals	30%	20	10
30	Pharmaceutical products:			
30	Life saving drugs imported on certification as life saving (for personal use)	0%	0	0
30	Chemical contraceptive preparations based on hormones or spermicides	0%	0	0
30	Japanese Encephalitis vaccine imported by A.P. Government through UNICEF	0%	0	0
30	Homoeopathic medicines	25%	25	20
30	Medicaments containing spirit	30%	25	20

30		All other goods (Medicines)	30%	25	20
31		Fertilizers			
	31	Sodium Nitrate	0%	5	5
31		Ammonium sulphate, mineral or chemical fertilizer containing N,P,K/ N,P, Potassium sulphate, Mineral or chemical fertiliser containing N & P.	5%	5	5
31		Kyanite salts for manurial purposes, Muriate of potash, ammonium phosphate and ammonium nitrophosphate for use as manure or for production of complex fertilizers, Urea for use as manure, composite fertilizers, pot. Nitrate	5%	5	5
31		Diammonium Phosphate, Ammonium dihydrogenorthophosphate	5%	5	5
31		All other goods (Fertilizers)	30%	25	20
32		Dyes, pigments, paints, varnishes			
	32	Chemicals & Lacquers required for improved finish of export product.	0%	0	0
32		Silver powder suspension	5%	5	5
32		Wattle extract, quebracho extract and chestnut extract	15%	15	10
32		Specified dyes for leather industry (Part of lists)	25%	25	20
32		All other goods (Dyes, paints, varnishes, etc.)	30%	25	20
33		Essential oils, resinoids, perfumery and cosmetic preparations			
33		Extracted oleoresins	25%	25	20
33		Alcoholic preparations of a kind used for the manufacture of beverages	160%	Bound rate	Bound rate
33		All other goods (essential oils; Cosmetics & toilet preparations)	30%	25	20
34		Soap, organic surface active agents, washing preparations, lubricating preparations, waxes, polishing or scouring preparations, candles and similar articles, etc.	30%	25	20
35		Glues, enzymes, modified starches, albuminoidal substances			
35		Hydroxy ethyl starch, for Plasma volume expanders	5%	5	5
35		Isolated soya protein	15%	10	10
	35	Epoxy grade adhesive for manufacture of syringes.	15%	15	10
35		All other goods(Glues & adhesive)	30%	25	20
36		Explosives; pyrotechnic products, matches	30%	25	20
37		Photographic or cinematographic goods			
37		Instant print film	5%	5	5
	37	Cinematographic film exposed but not developed	0%	0	0
	37	Recorded magnetic film use for production of TV serial	0%	0	0
	37	Color positive, unexposed cinamatographic films in jumbo rolls & color negative unexposed cinematographic film in rolls of 400 ft & 1000 ft.	5%	5	5

37		Film strips and slides for education, educational film certified by CBFC, microfilms of- printed books, maps charts and drawings, exposed and developed film sheets for printing or reproduction of printed books.	15%	15	15
37		Exposed cinematograpic films for defence use, film and video cassettes for archival study	15%	15	10
37		Photographic chemicals	30%	20	10
37		All other goods (Photographic goods)	25%	25	20
38		Misc. chemical products			
	38	Reference standard imported by Central Drug Laboratory, Calcutta	5%	5	5
	38	Chemical elements doped for use in electronics	0%	0	0
38		Dextran for plasma volume expander	5%	5	5
38		Biopesticides (3 specified ones)	5%	5	5
38		Dipping oil, Paclobutrazol (cultar)	15%	10	10
	38	LAL test kit	15%	10	10
38		Catalysts	25%	20	10
38		Mixed Alloye Benzenes	25%	20	10
38		Industrial Fatty acids / alcohol / Insecticides etc.	30%	20	20
38		All other goods(Misc. chemical products)	30%	20	20
39		Plastics and articles thereof			
39		Substrated polyester base for medical/ industrial X-ray film, graphic art film	0%	5	5
39		Alatheon for copper T	0%	0	0
	39	Nylon gut for manufacture of sports goods	0%	5	5
39		Tags, labels, printed bags, stickers, belts, buttons or hangers, imported by bonafide exporters	0%	0	0
39		Silicon resins and silicon rubber for Solar cells	5%	5	5
	39	Saddle tree	5%	5	5
39		LDPE,PP used in manufacture of syringes	15%	15	10
	39	Nylon chips for manufacture of nylon filament yarn and Polyester chips for the manufacture of yarns or fibres of polyester, Nylon 6, 12 chips for manufacture of nylon monofilament	25%	25	20
39		Bulk Polymers i.e. LDPE/ LLDPE, HDPE, PVC, PP & PS	30%	25	20
39		All engineering plastics/ speciality polymers (39.05 to 39.14) waste & scrap(39.15)	30%	25	20
39		Articles of plastics	30%	25	20
40		Rubber and articles thereof			
40		New or retreaded aircraft tyres	3%	3	3
	40	Natural rubber in smoked sheets, technically specified natural rubber, natural rubber in forms other than latex	25%	25	20
40		Natural raw rubber	70%	#	#
40		Tyres	30%	25	20
40		Other rubber products	30%	25	20

41	Raw hides, skins and leather			
41	(a) Raw hides and skins (fresh, salted, dried, limed, pickled) whether or not split, including sheep skins in wool; (b) Raw hides and skins (otherwise preserved)	0%	0	0
41	Wet blue chrome tanned leather, crust leather, finished leather of all kinds including splits and sides of the aforesaid	0%	0	0
41	All other goods (patent leather, composite leather etc.)	25%	25	20
42	Articles of leather like saddles, travel goods, hand bags, gloves, belts, articles of leather or of composition leather of a type used in technical applications and other articles of leather	30%	25	20
43	Articles of furskin, artificial fur and articles thereof			
43	Raw furskins and tanned or dressed furskins	0%	0	0
43	Articles of furskin, artificial fur, etc.	30%	25	20
44	Wood and wood substitutes and articles thereof			
44	(a) Wood chips (b) Wood in the rough and wood roughly squared or half squared (c) Fuel wood, wood charcoal, etc	5%	5	5
44	Wood sawn or chipped lengthwise, railway sleepers, wood wool, hoop wood, etc.	25%	25	20
44	All other goods (plywood and wood articles, fibre board, particle board etc.)	30%	25	20
45	Cork - natural, granulated, agglomerated, waste, roughly squared, articles	30%	25	20
46	Manufactures of straw, etc; basketware and wicker work	30%	25	20
47	Pulp and waste paper			
47	Pulp of wood or of other fibrous cellulosic material (except rayon grade wood pulp) intended for manufacture of newsprint	0%	5	5
47	Waste and scrap of paper	5%	5	5
47	Rayon grade wood pulp	5%	5	5
47	Wood pulp (for Paper and paper board)	5%	5	5
48	Paper, paperboard; articles of paper pulp, paper & paperboard			
48	Mould vat made watermarked bank note paper, imported by specified Bank note press/ security press	0%	0	0
48	Tags, labels, printed bags, stickers,etc., imported by bonafide exporters	0%	0	0
48	Newsprint and light weight coated paper weighing upto 70 gms/ sq.mtr imported by actual users for printing of magazines	5%	5	5
48	Grape guard paper for packing of grapes	5%	5	5
48	Various types of other uncoated and coated paper and paper boards	30%	25	20

48		All other goods (Articles of Paper and Boards, specified variety of paper such as cigarette paper, carbon paper, filter paper etc.)	30%	25	20
	49	Products of the printing industry			
49		Printed books, printed manuals, maps & charts, UNICEF cards, etc, Commonwealth and International reply Coupons, UNESCO coupons	0%	0	0
49		Periodicals, journals, newspapers, music manuscripts, maps, atlases, globes, hand drawn plans, etc (excluding topographical plans)	0%	0	0
49		Plans, drawings and designs	0%	5	5
49		Printed Indian Bank notes imported by RBI	0%	0	0
	49	Cheque forms including blank travellers cheques	15%	10	10
	49	All other goods (printed matter such as printed or illustrated post cards, calendars, pictures, designs and photographs, trade advertising material, commercial catalogues and the like, etc.)	25%	25	20
50		Silk	30%	25	20
50		Silk waste	15%	15	10
50		Silk worm cocoons, raw silk, silk yarn and fabrics	30%	25	20
51		Wool, fine or coarse animal hair; horse hair yarn and woven fabrics			
51		Raw wool for handlooms sector	5%	5	5
51		Raw wool of average fibre diameter 32 microns and above	5%	5	5
51		Raw wool, not carded or combed	15%	10	10
51		Waste of wool including yarn waste and garnetted stock	15%	10	10
51		Fine or coarse animal hair, not carded or combed	15%	10	10
51		Carded wool, wool tops and other combed wool , coarse or fine animal hair, carded or combed	20%	10	10
51		Yarn of wool or fine or coarse animal hair, not put up for retail sale.	20%	20	20
51		Yarn of wool or of fine animal hair,put up for retail sale and yarn of coarse animal hair, whether or not put up for retail sale	30%	25	20
	51	Woven fabrics of wool or fine animal hair	max[30% ,specific]	25	20
	51	Woven fabrics of coarse animal hair or of horsehair	max[30% ,specific]	25	20
52		Cotton-fibre, yarn and fabrics			
52		Raw cotton	10%	10	10
	52	Cotton waste including yarn waste and garnetted stock	15%	10	10
	52	Cotton sewing thread	20%	20	20
52		Cotton yarn, not put up for retail sale	20%	20	20
52		Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, put up for retail sale	25%	25	20
52		Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton put up for retail sale	30%	25	20

52		Specified varieties of cotton fabrics, unbleached, bleached or dyed.	30%	25	20
52		Printed cotton fabrics, denim fabrics and specified varieties of cotton fabrics of yarns of different colours	max[30% ,specific]	25	20
	52	Upholstery fabrics of cotton	max[25% ,specific]	25	20
	52	Other specified varieties of cotton fabrics	max[30% ,specific]	25	20
53		Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn			
53		Raw jute	5%	5	5
53		Flax fibre	15%	10	10
53		Jute waste including yarn waste and garnetted stock	25%	25	20
53		True hemp, sisal, coconut, abaca, ramie and other textile fibres (other than jute), tow and waste of these fibres	30%	25	20
	53	Flax yarn, jute yarn, yarn of vegetable fibre, jute fabrics, fabrics of vegetable textile fibres etc)	30%	25	20
53		Woven fabrics of flax	30%	25	20
54		Man-made filaments, yarn and fabrics			
54		Synthetic and Artificial filament yarn, (other than sewing thread) not put up for retail sale, Synthetic and Artificial monofilament of less than 67 decitex	20%	20	20
54		Acetate and cuprammonium filament yarn	20%	20	20
54		Sewing thread, monofilaments, strip and the like and filament yarn put up for retail sale	20%	20	20
54		Fabrics of strip and the like and bonded fabrics	25%	25	20
54		Upholstery fabrics, fabrics of high tenacity synthetic yarn, specified varieties of man made filament fabrics(unbleached or bleached), polyester filament fabrics of non-textured filaments	max[25% ,specific]	25	20
	54	High tenacity fabrics of viscose rayon, unbleached or bleached fabrics of artificial filament, strip or the like	30%	25	20
	54	Other specified fabrics of filament yarn	max[30% ,specific]	25	20
55		Man-made staple fibres			
55		Viscose staple fibre and tow	20%	20	20
55		Synthetic staple fibres and tows	20%	20	20
55		Waste of man-made fibres	30%	25	20
55		Acetate tow	20%	20	20
55		Sewing thread and spun yarn	20%	20	20
	55	Upholstery fabrics of synthetic or artificial staple fibres	max[25% ,specific]	25	20

55		Specified varieties of fabrics of man-made fibres(unbleached or bleached fabrics of synthetic fibres, unbleached, bleached or dyed fabrics of artificial fibres, etc.)	30%	25	20
55		Specified varieties of fabrics of man-made fibres(Dyed printed etc.)	max[30% ,specific]	25	20
	55	Specified varieties of fabrics of polyester fibres, acrylic fibres and artificial fibres	max[30% ,specific]	25	20
56		Wadding, felt and non-wovens; special yarns; twine, cordage, ropes and cables and articles thereof			
56		Sanitary towels and tampons, napkins and napkin liners for babies and similar sanitary articles, of wadding	30%	25	20
56		Rubber thread and cord, textile covered, metallised yarn, gimped yarn, twine, cordage and cables.	20%	20	20
	56	Non-wovens, wadding and felt	25%	25	20
	56	Knotted nettings of twine, fishing nets, articles of yarn strip or the like	30%	25	20
57		Carpets and other textile floor coverings			
57		Carpets and floor coverings of wool, other animal hair and coconut and other vegetable fibre	30%	25	20
57		Carpets and other textile floor coverings of pile construction of wool or fine animal hair, other textile materials and tiles	30%	25	20
57		Carpets and other textile floor coverings of of man-made textile material	max[30% ,specific]	25	20
58		Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery			
58		Tags, labels, printed bags, stickers,etc., imported by bonafide exporters	0%	0	0
58		Terry towelling fabrics other than of cotton, gauze,handwoven tapestries, narrow woven fabrics othern than of man-made fibres, quilted textile products,	30%	25	20
58		Terry towelling and similar woven terry fabrics of cotton, unbleached	25%	25	20
58		Terry towelling and similar woven terry fabrics of cotton, bleached	max[25% , specific]	25	20
58		Woven pile fabrics and chenille fabrics (other than warp cut pile fabrics) , tufted textile fabricstulles and other net fabrics, embroidery without visible ground	max[25% , specific]	25	20
	58	Warp cut pile fabrics and upholstery fabrics	max[25% , specific]	25	20

	58	Labels, badges & similar articles, ornamental trimmings, woven fabrics of metal thread, specified narrow woven fabrics		25%	25	20
	58	Gauze, Handwoven tapestries, narrow woven fabrics, braids in the piece, other embroidery and quailted textile products	30%		25	20
59		Impregnated, coated, covered, laminated textile fabrics				
59		Bolting cloth, textile fabrics and felts, etc. of a king used in paper making or similar machines		30%	25	20
59		Textile fabrics coated, covered with plastics.fabrics coated with gum or amylaceous substances, tyre cord fabrics,Textile products & articles for technical uses, transmission/ conveyor beltings etc.		25%	25	20
	59	Textile fabrics otherwise coated or impregnated with plastics, painted canvas, textile wicks, ;incandescent gas manteles and tubular gas mantle fabric, textile hosepiping and similar tubings		30%	25	20
	59	Textile wall covedrings		30%	25	20
60		Knitted or crocheted fabrics				
60		Pile fabrics for manufacture of toys	15%		10	10
60		All goods other than pile fabrics of man made fibes		30%	25	20
60		Warp knit fabrics of cotton and man-made fibres		30%	25	20
60		Pile fabrics of man-made fibres	max[25% , specific]		25	20
61		Specified men's/ women's trousers, shirts, blouses, underpants, briefs, panties, T-shirts, jerseys, stockings etc. of cotton or man-made fibres	max[30% , specific]		25	20
	61	Specified apparel such as overcoats, bathrobes suits, etc.		30%	25	20
	61	Other apparels and clothing accessories		30%	25	20
62		Articles of appareland clothing accessores, not knitted or crocheted				
62		Babies garments and clothing accessories, gloves, mittens and mitts		30%	25	20
	62	Knitted or crocheted women's , men's or boy's overcoats, raincoats, shirts, trousers, suits, jackets and blazers, skirts, blouses etc.	max[30% , specific]		25	20
63		Made-up textile articles; sets; worn clothing and worn textile articles; rags				
63		Cotton terry towels	25%		25	20
63		Used or new rags, scrap twine, cordage, rope and cables and worn out articles of twine, cordage, rope or cables, of textile materials		25%	25	20
63		Blankets and travelling rugs of wool or fine animal hair, bed linen of cotton	max[30% , specific]		25	20

63		Sacks and bags, tarpaulins, awnings and sunblinds, tents, sails for boats etc, ; other made up articles, including dress patters; sets of woven fabric and yarn, worn clothing and articles	30%	25	20
63		Other Blankets and travelling rugs, bed linen, table linen, toilet linen and kitchen linen, curtains and interior blinds; curtain or bed valances, bed spreads and other furnishing articles	30%	25	20
	64	Footwears, gaiters and the like and parts thereof			
	64	Parts of leather footwear	25%	25	20
64		Footwear, parts etc.	30%	25	20
65		Headgear and parts	30%	25	20
66		Umbrellas, walking sticks etc.	30%	25	20
67		Prepared feathers, artificial flowers, etc.	30%	25	20
68		Articles of stones, plaster, cement, asbestos etc.			
68		Moulds and dies for electronic parts	25%	25	20
68		All other goods	30%	25	20
69		Ceramic products			
69		Refractory bricks, blocks and tiles (69.02)	25%	25	20
69		Other refractory ceramic goods (69.03)(crucibles, pots, laddles etc.)	25%	25	20
69		All other goods (ceramic articles)	30%	25	20
70		Glass and glassware			
70		Capillary tubes and rods of glass for manufacture of thermometers	15%	10	10
	70	Yarn of glass fibre, not coloured	20%	20	20
	70	Rough ophthalmic blanks for optical lenses	25%	25	20
70		All other goods (Glass and glassware)	30%	25	20
71		Natural/ cultured pearls, precious/ semi-precious stones, precious metals, metals clad with precious metals, imitation jewellery, coins			
71		Current coins of GOI; Foreign currency coins imported by a scheduled bank	0%	0	0
71		Coin blanks imported by a GOI Mint	0%	0	0
	71	Special industrial adhesives, gums and solutions and synthetic diamond powder upto 1% of diamond export value	0%	0	0
	71	Silver and gold imported under jewelry export promotion schemes	0%	0	0
	71	Platinum imported under jewelry export promotion scheme	0%	0	0
71		Raw pearls and raw cultured pearls (including admixtures), rubies, emeralds and saphires (unset and uncut), rough diamonds, rough semi-precious stones.	5%	5	5
71		Gold	Rs.25/ gms.	Rs.25/ gms.	Rs.25/ gms.

71	Silver	Rs.500/ kg.	Rs.500/ kg.	Rs.500/ kg.
71	Rough Synthetic stones, Non-industrial diamonds (other than rough diamonds), platinum, cut and polished coloured gem stones, ash and residues containing precious metal for recovery of precious metals	15%	10	10
71	Industrial diamonds	25%	25	20
71	All other goods(precious metals like iridium, articles of jewellery etc.)	30%	25	20
72	Iron and Steel (Unwrought stage steel)			
72	Melting scrap of iron or steel or of stainless steel for melting; ferro nickel	5%	5	5
72	Pig iron	15%	15	10
72	Ingots, Billets, Blooms, Slabs and stainless steel slabs other than seconds and defective	25%	20	10
72	Hot briquetted iron and sponge iron for electric arc furnace or induction furnace unit	25%	20	10
72	Ferro-molybdenum	25%	20	10
72	Other ferro alloys	25%	20	10
72	Rerollable scrap	25%	20	10
72	(Rolled products)			
72	Iron or non-alloy steel hot rolled coils and hot rolled stainless steel coils, other than seconds and derivatives	25%	20	10
72	TMBP coils for tin plate manufacture other than seconds and defective	25%	20	10
72 / 73	Steel required for the manufacture of machinery other than seconds and defective	25%	20	10
72	CR coils other than seconds and defective	30%	20	10
72	All other goods (Iron & Steel), other than seconds and defectives	30%	25	10
72	Seconds and defectives of Iron & Steel	40%	40	40
73, 84 or 85	Agricultural Silos	25%	20	20
73	Barbed wires (73.13), Sanitary Ware (73.24)	30%	25	20
73	Stoves, cookers (73.21), Table Ware, Kitchen Ware (73.23)	30%	25	20
73	All other goods (Articles of Iron & Steel)	30%	25	20
74	Copper and articles thereof			
74	Copper wire for copper T	0%	0	0
74	Unwrought copper and copper waste and scrap	25%	20	10
74	Wrought Copper ,semis and articles	25%	20	10
74	Cooking or Heating Apparatus (74.17)	25%	25	20
74	Table Ware, Kitchen Ware (74.18)	25%	25	20
74	All other goods (Copper articles)	25%	25	20
75	Nickel and articles thereof			

75		Nickel oxide sinter and unwrought nickel for manufacture of steel	5%	5	5
75		Other nickel articles (75.08)	15%	10	10
	75	All other nickle and article thereof	15%	10	10
76		Aluminium and articles thereof			
76		Aluminium waste and scrap	15%	10	10
76		Unwrought aluminium	15%	10	10
76		Wrought aluminium products and aluminium articles	15%	10	10
76		Table ware, Kitchen ware (76.15)	30%	25	20
76		All other aluminium and article thereof	15%	15	10
78		Lead and articles thereof	25%	20	10
79		Zinc and articles thereof	25%	20	10
80		Tin and articles thereof	15%	10	10
81		Other base metals; cermets, articles thereof			
81		Unwrought magnesium	25%	20	10
	81	Graphite synthetic or cobalt alloy for manufacture of diamond tools	25%	20	10
81		All goods other than unwrought magnesium	30%	20	10
	82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof			
	82	Moulds and dies for manufacture of electronic parts	25%	20	20
	82	Interchangeable tools for metal working hand tools	25%	20	20
	82	Knives, cutting blades including table knives (82.11), Spoons, Forks (82.15)	30%	25	20
	82	Razors, blades (82.12), Scissors (82.13), paper knives, sharpeners (82.14)	30%	25	20
	82	Other Interchangeable tools for metal working hand tools	25%	20	20
	82	All other goods	30%	20	20
	83	Miscellaneous articles of base metals	30%	25	20
	84	Machinery, Mechanical appliances and parts thereof			
84		Specified goods imported for petroleum operations undertaken under specified contracts under the NELP	0%	0	0
	84	Specified goods imported in connection with petroleum operations undertaken under petroleum exploration licenses, mining leases, issued or renewed after 1-4-99 and granted by GOI or any State Govt. to ONGC or OIL on nomination basis	0%	0	0
84		Parts and raw materials for manufacture of goods to be supplied in connection with off shore oil exploration or exploitation	0%	0	0

84		Plant, machinery, equipment, tools, surveillance systems etc. imported by RBI	5%	5	5
84		Goods for substitution of ODS and setting up new capacity with non-ODS technology	0%	0	0
	84	21 specified machinery for road construction	0%	5	5
	84	Engines and parts of Aeroplane, gliders, etc.	0%	3	3
84		Capital goods for renovation / moderenisation of fertiliser plant	5%	5	5
84		Specified goods for setting up of crude petroleum refinery	5%	5	5
84		Wind operated electricity generators and battery charges upto 30 KW and specified parts of wind machines	5%	5	5
	84	Spares supplied with out board motors for maintenance	5%	5	5
	84	Parts of outboard motors	5%	5	5
	84	Specified Machinery for leather	5%	5	5
	84	Iron and steel products, machinery and equipment for renovation or modernisation of a power generation plant (excl. captive power plant)	5%	5	5
	84	Fogging machines imported by a municipal committee, district board or other authority legally entitled to, or entrusted by the Govt. with the control or management of a Municipal Fund, for use in combatting malaria and other mosquito borne diseases	5%	5	5
	84	Catalytic convertors	5%	5	5
	84	Parts and raw materials for manufacture of Catalytic convertors	5%	5	5
	84	CNG kits and parts, LPG conversion kits and parts, Propane conversion kits and parts	5%	5	5
	84	40 Specified textile machinery	5%	5	5
	84	Specified machinery or equipment for manufcture of Ics and electronic micro assemblies	5%	5	5
	84	27 specified machinery for making building materials	5%	5	5
	84	Specified goods for manufacture of ground power units and air jet starters.	15%	10	10
	84	Specified items for manufcture of solar energy equipment	15%	10	10
	84	119 specified textile machinery and parts	5%	5	5
	84	Specified machinery for wool/ flax and VFY and parts	15%	10	10
	84	Specified machinery for silk	10%	10	10
	84	Specified machinery and equipment for setting up of training development project of jewellery production and gemology	15%	10	10
	84	Specified equipment for use in a Green House	25%	20	20
	84	Specified machinery for development of airports	10%	10	10
	84	Specified machinery for development of ports	10%	10	10
	84	Air conditioning & House hold type Refrigerating appliances, house-hold and laundry type washing machines, Dry-cleaning machines, Dishwashing machines, House-hold type sewing machines, elec. Fans, duplicating machines, etc.	30%	25	20
	84	Compressors for refriegerating machines, air-conditioners, etc.	30%	25	20
	84	Parts of air conditioning appliances, refrigerators, dish washing machines, etc.	30%	25	20
	84	Personal weighing machines, house hold scales etc.	30%	25	20

	84	Typewriters and other office machines	30%	25	20
	84	Ball or roller bearings of 60 mm bore diameter or less and Parts thereof	30%	25	20
	84	IC Engines for automobiles and parts thereof	30%	25	20
	84	All other machinery and parts	25%	20	20
	84	Computers; parts and accessories thereof			
	84	Second hand computers donated to schools	0%	0	0
	84	Braille printer, braille embosser or braille display specially designed for computer system.	0%	0	0
	84	Floopy Disk drive, Hard disk drive & CD-ROM drive	0%	0	0
	84	Other storage devices	0%	0	0
	84	Microprocessors for computers other than mother boards	0%	0	0
	84	Deflection components for colour monitors for computers	0%	5	5
	84	Computer parts (excluding PPCB)	5%	5	5
	84	Parts of electronic calculators	5%	5	5
	84	PPCB (mother board)	15%	10	10
	84	Computers(automatic data processing machines)	15%	10	10
	84	Automatic teller machines	15%	10	10
	84	Calculating machines, accounting machines, cash registers, etc.	15%	10	10
	84	Word processing machines	15%	10	10
	84	Ribbon assembly, ribbon gear assembly and ribbon gear carriage for use in printers for computers	5%	5	5
	84	Personal computers/ typewriters/ FAX imported by an accredited journalist/ CD writers	0%	0	0
	84	POS terminals	15%	15	10
	85	Electrical Machinery and Equipment			
85		Recorded magnetic tapes, CD Rom and micro films by R&D institution,	0%	0	0
	85	CD ROMs containing books of educational nature, journals, periodicals etc.	0%	0	0
	85	IT softwareand document/ title conveying the right to use IT software.	0%	0	0
	85	CD-ROMs	0%	0	0
85		TV equipment imported by by foreign film unit	0%	0	0
85		Video cassette/ Tapes of educational nature	0%	0	0
85		Audio cassettes recorded with materials from books, newspaper or magazines for the blind	0%	0	0
85		One set of pre-recorded casettes accompanying books for learning languages	0%	0	0
85		Recorded magnetic tape, CD-ROM etc. by UGC	0%	0	0
85		Items for Laser based instrumentation	0%	5	5
85		Photographic, filming, sound recording and radio equipment, raw films, video tapes and sound recorded tapes of foreign origin, if imported into India after having been exported therefrom	0%	0	0
85		Goods imported for being tested in specified test centres	0%	0	0
85		Wireless apparatus for HAMs	5%	5	5

85	DC Micromotors for computers	5%	5	5
85	Specified machinery/ equipment imported by accredited news agency	5%	5	5
85	Cellular Telephones, pagers	10%	10	10
85	Parts of Cellular/ pager/ trunking hand sets	5%	5	5
85	Ozone generators	15%	10	10
85	Button cells / Raw materials for manufacture of button cells; battery packs for cellular telephones	15%	10	10
85	Membrane electrolysers and parts, membranes and other machinery for caustic soda units	15%	10	10
85	Static convertors and other inductors for automatic data processing machines or telecom apparatus and parts thereof	15%	10	10
84 or 90	Equipment having multipltle function of printing, screening & photocopying	25%	25	20
85	Navigational, communication, air-traffic control and landing equipment and spares for maintenance of such equipment imported by Airports Authority of India	25%	20	20
85	Electro-mechanical domestic appliances	30%	25	20
85	Batteries and accumulators	30%	25	20
85	Ignition equipment used with IC engines, lighting or signalling equipment used in motor vehicles	30%	25	20
85	Electrical switching or protecting apparatus for industrial applications	25%	25	20
85	Electrical switching or protecting apparatus fornon- industrial applications	30%	25	20
85	Lamps,wires and cables	30%	25	20
85	Programme controller, boards, panels, etc (85.37)	30%	25	20
85	Connectors	30%	25	20
85	Electrical insulators, insulation fittings and parts	25%	25	20
85	Electro mechanical hand tools	30%	25	20
85	DC Micromotors	25%	25	20
85	CD Mechanism	25%	25	20
85	68 specified machinery for semi-conductor manufacture	0%	0	0
85	Other specified machinery and their parts	25%	20	20
85	Electronics			
85	Specified line & wireless telecom equipments (transmission apparatus w/ n with reception apparatus, telephonic switching apparatus, apparatus for current carrier systems etc)	15%	10	10
85	Routers & Modems	15%	10	10
85	Parts of telecom equipments	5%	5	5
85	Specified equipment required for basic telephone/ cellular mobile telephone/ readio paging and closed user’s group 64KBPS domestic data network services and parts thereof.	5%	5	5
85	Glass parts for CPT (excluding neck or reneck tubes)	25%	20	20
85	Glass shells of CPT/ Neck or Reneck tubes	25%	20	20
85	Colour TV picture tube	30%	20	20
85	Colour TVs, Music systems, VCR,VCPs, Two-in-ones etc.	30%	25	20

85	Other cathode ray television picture tubes, including video monitor tubes	25%	25	20
85	Data/ graphic display tubes	0%	5	5
85	Digital still image video cameras	15%	15	10
84, 85, 90, 91, 94 or any other chapter	Goods specified for studio equipment and radio broadcasting	25%	25	20
85	Specified loud speakers(other than cone type), line telephone hand sets, telephone answering machines; indicator panels, certain specified parts, etc.	10%	10	10
85	mgnetic disc, magnetic tapes, specified recorded media	15%	10	10
85	Specified electric sound or visual signalling apparatus, specified electronic switches and parts thereof, proximity cards and tags, electrical machines with dictionary functions, specified capacitors and parts thereof, specified insulated conductors	15%	10	10
85	Aerials or antennae of a kind used with apparatus for radio telephony and radio telegraphy.	15%	10	10
85	Parts of resistors/ semiconductors	0%	0	0
85	Parts of capacitors	0%	0	0
85	Deflection components for use in colour monitors for computers	0%	5	5
85	Specified electronic components	15%	10	10
85	Diodes, transistors, similar semi-conductor devices; solar cells and modules	15%	10	10
85	CCTV system for visually handicapped	15%	10	10
85	Specified raw materials/ inputs for electronic industry	5%	5	5
85	FRP rod for manufacture of telecom equipments.	5%	5	5
85	Optical fibres	15%	10	10
85	Specified raw materials for FRP rod	5%	5	5
85	Specified inputs for optical fibres/ cables	5%	5	5
85	Optical fibre Cables	25%	20	20
85	Electronic integrated circuits and micro assemblies	0%	0	0
85	Floopy diskettes	10%	10	10
85	GPS apparatus	25%	25	20
86	Railway/ tramway locomotives, rolling stock and parts, etc.			
86	Parts of railway/ tramway locomotives or rolling stock; Railway/ tramway track fixtures / fittings; signalling, safety or traffic control equipment for railways / tramways / waterways etc.	25%	20	20
86	All goods (Railway locomotives, coaches, wagons, containers, etc.)	30%	25	20
87	Vehicle excluding Railways/ Tramway Rolling Stock and accessories thereof			
87	Certain types of vehicles imported by tourists under Triptyque or carnet de passage, subject to certain conditions.	0%	0	0

	87	Tanks and other armoured fighting vehicles and parts thereof	0%	0	0
	87	Tricycles designed for use by crippled/ disabled persons	15%	10	10
	87	Motor cars and two wheelers, used	105%	100	100
	87	CBUs of Motor cars and two wheelers,	60%	50	50
	87	Motor cars and two wheelers, new or imported in CKD or SKD form	30%	25	20
	87	All other goods (Buses, trucks, tractors and automomotiveparts)	30%	25	20
	88	AIRCRAFT, SPACECRAFT AND PARTS			
88		Satellites and payloads for launching and ground equipment for testing them.	0%	0	0
88		Aeroplanes, Gliders, Helicopters & simulators	0%	3	3
	88	Parts of goods of heading 88.01 or 88.02 or 8803.10/20/30 - Propellers and rotors and their parts, under carriages and their parts, other parts of aeroplanes/ helicopters.	0%	3	3
	88	All other parts of aeroplanes, gliders, helicopters, simulators of aircrafts (other than rubber tyres and tubes for aeroplanes or gliders)	0%	3	3
	88	Raw-materials reqd for manufacture of aircrafts, parts of aircrafts of heading No. 8802; subject to certain conditions	0%	3	3
	88	All other goods (Parachutes and parts, ballons etc.)	30%	25	20
	89	SHIPS, BOATS AND FLOATING STRUCTURES			
89		Cruise / cargo ships and similar vessels for transport of goods / persons, when imported for purposes other than breaking up.	0%	0	0
89		Warships, life-boats and vessels other than the above when imported for purposes other than breaking up subject to certain conditions	0%	0	0
89		Barges imported along with ship for unloading of imported goods / loading of export goods; subject to certain conditions	0%	0	0
89		Capital goods and their spares, raw-materials, components, material handling equipment and consumables imported for repairs of ocean going vessels by a ship repair unit, subject to certain conditions	0%	0	0
89		Parts for repair of dredgers	0%	0	0
89		Raw-material and parts used in the manufacture of goods falling under heading Nos. 8901, 8902, 8904, 8906 and 8905.10 and 8905.90; subject to certain conditions	0%	0	0
89		Fishing and other vessels for processing/ preserving fishery products, when imported for purposes other than breaking up	5%	5	5
89		Tugs and pushercraft when imported for purposes other than breaking up; subject to certain conditions	5%	5	5
89		Dredgers, light vessels, fire floats, floating cranes and other vessels, the navigability of which is subsidiary to their main functions, floating docks when imported for purposes other than breaking up subject to certain conditions	5%	5	5
	89	Vessels and other floating structures for breaking up	15%	15	10
	89	All other goods (yachts for pleasure or sports, motor boats, sail	30%	25	20

		boats etc.).			
90		Photographic or cinematographic, measuring and checking instruments			
90		Specified photographic/ cinema equipment imported by an accredited press cameraman	0%	5	5
	90	Equipment, parts or accessories for setting up of planetarium	15%	15	10
90		Life saving/ sight saving medical equipment and accessories/ spare parts and specified medical equipment/ parts required for mfr./ maintenance of such specified equipments	5%	5	5
90		Medical and surgical instruments, apparatus and appliances including spare parts and accessories thereof	5%	5	5
90		Specified goods imported by a handicapped or disabled person for his personal use (Braille printers / writing instruments, electronic & arithmetic aids, orthopedic apparatus, etc)	0%	0	0
	90	X-ray baggage inspection systems and parts thereof used in anti-smuggling operations, bomb detection/ disposal purposes	0%	5	5
	90	Specified medical equipment and appliances for the blind and deaf subject to conditions	5%	5	5
90		Hospital equipment (equipment, apparatus and appliances, including spare parts and accessories thereof, but excluding consumable items) for use in specified hospitals	5%	5	5
	90	Linear accelerator with beam energy 15 Mev or more	5%	5	5
90		Parts and spare parts of of hearing aids	5%	5	5
	90	Specified instrument and apparatus for mesuring / checking / chemical analysis, drawing and drafting machines	10%	10	10
90		Hearing aid appliances and spare parts	15%	10	10
90		Specified medical equipments and parts thereof, external silicon breast prosthesis (generally not produced in India)	15%	10	10
	90	Cinematographic cameras, apparatus and equipment for cinematographic labs, etc	15%	15	10
	90	Parts and accessories of photographic cameras for manufacture of photographic cameras	15%	15	10
90		Medical equipment (general)	25%	20	20
90		Lenses, prisms, mirrors and other optical elements, frames and mountings for spectacles, goggles and the like, binoculars, monoculars, other optical telescopes etc., photographic and projectors	30%	25	20
90		Image projectors, photographic enlargers and reducers, Photocopying apparatus, apparatus and equipment for photographic labs, etc.	30%	25	20
90		Parts of photocopying apparatus, cameras etc.	25%	25	20
90		Instruments and parts (general rate)	25%	20	20
91		Clocks and watches:			
91		Braille watches , alarm clocks and parts	0%	0	0
91		Watch & clock movements	25%	25	20

91	Specified clock and watch parts (springs, jewels, dials, plates & bridges, etc.)	25%	25	20
91	Watch straps, bands etc. made of base metals.	30%	25	20
91	Watches	30%	25	20
91	Clocks	30%	25	20
91	Specified horological raw material	15%	10	10
92	Musical instruments	30%	25	20
93	Arms and Ammunition	30%	25	20
94	Furniture, bedding, mattresses, lamps and lighting fittings, pre-fabricated buildings, etc.			
94	Specified dental furniture	15%	10	10
94	Lamps, light fittings for use in sports or games stadia	15%	15	10
94	All other goods	30%	25	20
95	Toys, games and sport requisites			
95	Requisites for national / international championships/ competitions, cups, trophies & medals won by Indian team etc.	0%	0	0
95	Synthetic tracks, artifical surfaces and specified goods for laying them etc.	0%	5	5
95	Parts of electronic toys for manufacture of electronic toys	5%	5	5
95	Parts of video games for manufacture of video games	5%	5	5
95	Sports goods.	25%	25	20
95	Toys	30%	25	20
96	Miscellaneous manufactured articles			
96	Fasteners and poly wadding materials, inlay cards, shoulder parts, buckles, hooks and eyes, rivets, collar stays, laces, badges, velcro tape, embroidery threads, etc. upto 3% of fob value of exports	0%	0	0
96	Refills for ball point pens, pen nibs and nib points and parts and raw material for pens and pen holders	15%	15	10
96	Misc. manufactured goods (Handicrafts, brooms, brushes, snap and slide fasteners, pens pencils, slates, boards, dealing and numbering stamps, lighters, cmoking pipes, coms, hairslides and the like, toilet sprays, vacuum flasks, tailors dummies, etc.)	30%	25	20
97	Works of art and antiques	0%	0	0
97	Postage or revenue stamps	0%	0	0
97	Work of art created by Indian artists abroad	0%	0	0
97	Book of age exceeding 100 years	0%	0	0
97	Archaeological specimens, photographs, plasster casts or antiquities, intended for exhibition for public benefit in a museum managed by the ASI of India or a State Govt.	0%	0	0
97	Collections and Collector's pieces	30%	25	20
97	Original sculptures, engravings, prints and paintings, drawings and pastels executed by hand	30%	25	20

98	Project Imports; Lab Chemicals; passangers baggage, personal importations by air or posts; ship stores			
98	Specified Life saving drugs or medicines or other life saving drugs or medicines on certification by DGHS, for personal use.	0%	0	0
98	Articles intended for personal use imported by post or air as gifts upto a value of Rs.5000	0%	0	0
98	Used bona fide personal and household effects belonging to a deceased person	0%	0	0
98	Goods imported through postal parcels, packets and letters, the duty payable on which is not more than Rs. 100	0%	0	0
98	Articles imported as baggage other than on transfer of residence upto Rs.12000	0%	0	0
98	Specified mega power projects and nuclear power projects	0%	5	5
98	Water treatment projects	0%	0	0
98	Fertilizer projects	5%	5	5
98	Power generation projects	5%	5	5
98	Coal mining projects	5%	5	5
98	Power transmission projects of 66 KV & above	25%	20	20
98	Captive power generation projects	25%	20	20
98	Other industrial projects	25%	20	20
98	Specified articles imported as baggage on transfer of residence	25%	20	20
98	Articles intended for personal use imported by post or air other than gifts	30%	25	20
98	Lab chemicals	30%	25	20
98	Ship stores	30%	25	20
98	Articles imported as baggage other than on transfer of residence above Rs12000	60%	50	50
All Goods	Imports by UN organisations & UN funded projects	0%	0	0
	Artificial plasma	5%	5	5
Miscl.	Blood group sera; artificial kidney; contraceptives, specified works of art; animal or birds imported by zoo; commercial catalogues; specimens and models for instructional purposes; postage stamps, unused; paper money; woollen articles received as gift	0%	0	0
	* indicates that an existing exemption from CVD is proposed to be withdrawn # indicates there can be no fixed rule to decide the tariff on these agricultural products. The Task Force recommends that an expert group may be set up to examine the appropriate levels of tariff in respect of these products			

ANNEXURE B

Food products

2002-03	2003-04	2004-05
0%	4% without credit or 8% with credit	8%

S.No.	CH/SH	Description of goods
1.	04.02	Butter, whether pasteurised or processed
2.	04.03	Cheese, pasteurised or processed
3.	04.04	Other dairy produce; edible products of animal origin, not elsewhere specified or included
4.	09.03	Spices
5.	19.03	Tapioca and sago and substitutes thereof
6.	0401.11	Flavoured milk whether sweetened or not, put up in unit containers and ordinarily intended for sale
7.	0401.12	Skimmed milk powder, specially prepared for feeding infants
8.	0401.13	Milk powder, other than powder specially prepared for feeding infants, put up in unit containers and ordinarily intended for sale
9.	0401.19	Other milk and cream produced with the aid of power
10.	0401.90	Milk or cream concentrated or containing added sugar or other sweetening matter manufactured without the aid of power
11.	0501.00	Products of animal origin, not elsewhere specified or included
12.	0901.00	Coffee, whether or not cured or roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion
13.	0902.00	Tea manufactured by bought leaf factories and cooperative factories
14.	1103.00	*Tapioca Starch*
15.	1301.00	Compounded asafoetida (hing)
16.	1501.00	Animal (including fish) fats and oils, crude, refined or purified
17.	1502.00	Fixed vegetable oils, the following, namely, cottonseed

2002-03	2003-04	2004-05
0%	4% without credit or 8% with credit	8%

		oil, neemseed oil, marang oil, silk cotton seed oil, rice bran oil, khakhan oil, palm oil, water melon oil, sal oil, mahua oil, kusum oil, dhupa oil, undi oil, maroti oil, pisa oil, and nahor oil, and their fractions
18.	1503.00	Fixed vegetable oils, other than those of heading no. 15.02
19.	1504.00	Vegetable fats and oils and their fractions, partly or wholly hydrogenated, inter-esterified, re-esterified or elaidinised, whether or not refined but not further prepared
20.	1508.90	Other than linoxyn,-Margarine; edible mixtures or preparations of animal or vegetable fats; animal or vegetable fats and oils boiled, oxidised, dehydrated, sulphurised, blown, polymerised by heat in vaccum or in inert gas or otherwise chemically modified; inedible mixtures or preparations of fats and oils of this chapter
21.	1601.90	Preparations of meat, of fish, or of crustaeceans, molluscs or other aquatic invertebrates including sausages and similar products, extracts and juices, prepared or preserved fish and caviar and caviar substitutes, other than those put up in unit containers and bearing a brand name.
22.	1901.11	Food preparations of flour, meal, starch or malt extract, not elsewhere specified, put up in unit containers for infant use
23.	1901.19	Food preparations intended for free distribution to economically weaker sections of the society under a programme duly approved by the Central Government or any State Government
24.	1901.99	Food preparations of flour, meal, starch or malt extract, other than those put up in unit containers
25.	1902.11	Seviyan (vermicelli)
26.	1902.90	Pasta---other than those in unit containers
27.	1904.90	Prepared food obtained by the swelling or roasting of cereals-----other than those in unit containers
28.	1905.19	Biscuits manufactured without the aid of power

2002-03	**2003-04**	**2004-05**
0%	**4% without credit** **or** **8% with credit**	**8%**

29.	2001.90	Preparations of vegetables, fruit, nuts or other parts of plants including jams, fruit jellies, marmalades, fruit or nut puree and fruit or nut paste, fruit juices and vegetable juices, whether or not containing added sugar or other sweetening matter other than those put up in unit containers and bearing a brand name
30.	2001.90	Preparations of vegetables, fruit, nuts or other parts of plants including jams, fruit jellies, marmalades, fruit or nut puree and fruit or nut paste, fruit juices and vegetable juices, whether or not containing added sugar or other sweetening matter put up in unit containers and bearing a brand name
31.	2101.30	Roasted chicory and other roasted coffee substitutes, and extracts, essences and concentrates thereof
32.	2103.90	Sauces, ketchup and the like and preparations therefor; mixed condiments and mixed seasoning; mustard flour and meal and prepared mustard other than those put up in unit containers and bearing a brand name.
33.	2103.90	Sauces, ketchup and the like and preparations therefor; mixed condiments and mixed seasoning; mustard flour and meal and prepared mustard put up in unit containers and bearing a brand name.
34.	2104.90	Soups and broths and preparations therefor; homogenised composite food preparations other than those put up in unit containers and bearing a brand name
35.	2104.90	Soups and broths and preparations therefor; homogenised composite food preparations put Up in unit containers and bearing a brand name
36.	2108.40	Sterilized or Pasteurized Miltone (Veg. protein toned milk)
37.	2108.91	Other edible preparations, not elsewhere specified or included and not bearing a brand name
38.	2108.99	Sweetmeats (known as 'misthans' or mithai or by any other name), namkeens, bhujia, mixture, chabena and similar edible preparations in ready for consumption form, and papad

2002-03	2003-04	2004-05
0%	4% without credit or 8% with credit	8%

39.	2202.30	Soya milk drinks, whether or not sweetened or flavoured
40.	2202.40	Fruit pulp or fruit juice based drinks

ANNEXURE B-2

NON- FOOD PRODUCTS

2002-03	2003-04	2004-05	2005-06
0%	4% without credit or 8% with credit	8% without credit or 12% with credit	16%

S.No	Chapter	Commodities
1.	2710.00	Naptha when supplied to 12 specified power projects
2.	2710.00	Kerosene received by the factory from the refinery intended for use in the manufacture of linear alkylbenzene or heavy alkylate and returned by the factory to the refinery from where such kerosene is received.
3.	2713.00	Residues of petroleum oils or of oils obtained from bituminous minerals, including heavy petroleum stock, low sulphur heavy stock and other residual fuel oils falling under heading No. 27.13 of the said Schedule, intended for use as fuel for the generation of electrical energy by electricity undertakings owned by or controlled by the Central Government or any State Government or any State

2002-03	2003-04	2004-05	2005-06
0%	**4% without credit or 8% with credit**	**8% without credit or 12% with credit**	**16%**

		Electricity Board or any local authority
4.	28	Ammonium chloride and manganese sulphate intended for use- (a) as fertilisers; or (b) in the manufacture of fertlisers, whether directly or through the stage of an intermediate product
5.	28,29 or 30	Anaesthetics
6.	2804.11	Medicinal grade oxygen
7.	2804.32	Nitrogen, in liquid form, for use in the processing and storage of semen for artificial insemination of cattle
8.	2829.90	Potassium Iodate
9.	2847.11	Medicinal grade Hydrogen Peroxide
10.	32	Nitrocellulose lacquers produced in Ordnance factories belonging to the Central Government and intended for consumption for defence purpose or for supply to Central Government Departments
11.	3204.00 or 3809.00	Finishing agents, dye carriers to accelerate the dyeing or fixing of dye-stuffs, printing paste and other products and preparations of any kind used in the same factory for the manufacture of textiles and textile articles
12.	3215.10	Writing ink
13.	33	Henna powder, not mixed with any other ingredient
14.	3306.00	Toothpowder
15.	3401.11, 3401.12 or 3401.19	Soap, if manufactured under a scheme for sale of Janata soap
16.	3401.12	Soap, in or in relation to the manufacture of which, no process has been carried on with the aid of power or of steam
17.	3401.13	Laundry soaps produced by a factory owned by the KVIC or any organisation approved by the said commission for the purpose of manufacture of such soaps

2002-03	2003-04	2004-05	2005-06
0%	**4% without credit or 8% with credit**	**8% without credit or 12% with credit**	**16%**

18.	3805.19	Turpentine oil, other than that in the manufacture of which any process is ordinarily carried on with the aid of power
19.	3806.19	Rosin, other than that in the manufacture of which any process is ordinarily carried on with the aid of power
20.	3824.90	Ready mix concrete
21.	39.01 or 39.14	Plastic materials reprocessed in India out of the scrap or the waste of goods falling within Chapter 39, 54, 55, 56, 59, 64, 84, 85, 86, 87, 90, 91, 92, 93, 94, 95 and 96
22.	3917.00	Lay flat tubing
23.	3920.00	Strips and tapes of polypropylene used in the factory of its production in the manufacture of polypropylene ropes
24.	3706.00	Cinematographic films, exposed and developed, whether or not soundtrack
25.	3822.00	Chemical reagents
26.	39 or 40	Nipples for feeding bottles
27.	3904.00	Plastic material commonly known as polyvinyl chloride compounds (PVC compounds), used in the factory of its production for the manufacture of goods which are exempt from the whole of the duty of excise leviable thereon or are chargeable to “Nil” rate of duty
28.	3920.39	Products of jute and phenolic resins manufactured by pultrusion process, containing atleast forty per cent. by weight of jute
29.	4005.10	Plates,sheets or strip of unvulcanised compunded rubber, whether or not combined with any textile material, in relation to the manufacture of which no modvat credit is taken
30.	4005.20	Compounded rubber, unvulcanised, in primary form, used within the factory of production for the manufacture of excisable goods falling within the schedule
31.	4008.11	Plates, blocks of cellular rubber used in the manufacture of parts of footwear

2002-03	2003-04	2004-05	2005-06
0%	**4% without credit or 8% with credit**	**8% without credit or 12% with credit**	**16%**

32.	4008.21	Plates, blocks of non-cellular rubber used in the manufacture of parts of footwear
33.	4011.90 or 4013.90	Tyres of specified sizes for animal Drawn Vehicles (ADV)
34.	4015.00	Surgical rubber gloves
35.	4404.20	Veneer sheets and sheets for plywood manufactured without the aid of power
36.	4405.10	Wood, continuously shaped etc., manufactured without the aid of power
37.	44.06 or 44.07	100% wood free, plain or pre-laminated particle or fibreboard made from sugarcane bagasse or other agrowaste
38.	4404.10	Veneer sheets for matches
39.	4404.30	Veneer sheets and sheets for plywood used within the factory of production for the manufacture of goods falling under sub-heading No.4410.19 or 4410.90
40.	4405.20	Wood continuously shaped etc.used within the factory of production for the manufacture of goods falling under sub-heading No.4410.19 or 4410.90
41.	46.01	Manufacturers of straw etc basket ware & meicca ware
42.	48	Paper and paperboard or articles manufactured from non conventional raw materials (upto 3500 MT in a Financial Year)
43.	4817.00	Envelopes, letter cards, plain postcards and correspondence cards, of paper or paperboard; boxes, pouches, wallets and writing compendiums, of paper or paperboard, containing an assortment of paper stationery
44.	4818.10	Sanitary towels, tampons or napkins
45.	48.20	Note-books and exercise books
46.	4802.10	Writing paper for text books
47.	4802.20	Paper or paer board in the manufacture of which the lifting of pulp is done by hand and if power driven sheet froming

2002-03	2003-04	2004-05	2005-06
0%	**4% without credit or 8% with credit**	**8% without credit or 12% with credit**	**16%**

		equipment is used, the Cylinder Mould Vat does not exceed 40 inches
48.	4819.11	Cartons, Boxes for packing of match sticks
49.	4823.90	Paper splints for matches, Ashphaltic roofing sheet
50.	68 or 69	Stoneware, which are only salt glazed
51.	70	Optical glass manufactured by the Central Glass and Ceramic Research Institute, Calcutta and intended for use by any department of the Central Government
52.	7013.10	Glass beads and glass bangles
53.	7101.20	Piezo-electric quartz
54.	7319.10	Sewing Needles
55.	7323.90	Parts of Table, kitchen or other household articles (other than pressure cookers)
56.	74.09	All goods other than trimmed and untrimmed sheets/ circles of copper for handicraft/ utensils
57.	7402.00 or 7403.00	Unrefined copper and unwrought copper for handicrafts and utensils
58.	7404.10	Waste and scrap used within the factory of production for the manufacture of unrefined or unwrought copper, copper sheets or circles and handicrafts
59.	7408.12 or 7408.22	Copper wire for zari
60.	7409.00 or 74.10	Copper strip and foil for manufacture of zari
61.	7418.10	Parts of Table, Kitchen or other household articles
62.	8529.00	Television Chassis(Populated printed Circuit Board) used for the manufacture Of Broadcast Television receiver Sets Monochrome),other than video monitors video projectors and Projection television sets
63.	8601.00 and	Rail locomotives, Passenger coaches,Goods vans and wagons, etc., under the ownership and use by Indian

2002-03	2003-04	2004-05	2005-06
0%	4% without credit or 8% with credit	8% without credit or 12% with credit	16%

	86.06	Railways or the Konkan Railway Corporation
64.	87	Motor vehicles for transport of goods, three wheeled motor vehicles and mulity utility motor vehicles manufactured from duty paid chassis by an independent body builder.
65.	8705.00	Special purpose motor vehicle like fire fighting vehicles, mobile workshops, mobile radiological units manufactured from duty paid chassis and equipments.
66.	9017.10	Drawing and mathematical instruments
67.	9017.90	Parts of drawing and mathematical instruments, used in the manufacture of such instruments
68.	9027.00	Instrument kits manufactured by M/s Hindustan Antibiotics Ltd. for testing narcotics
69.	9102.90	Parts of Watches and clocks of retail sale price not exceeding Rs.500 per piece,
70.	9404.00	Rubberised coir mattresses
71.	9504.10	Playing cards
72.	9506.00	Sports goods
73.	9603.00	Brooms, brushes and other floor sweepers,and parts thereof, mops, feather dusters; paint pads and rollers
74.	9606.10	Buttons and button blanks
75.	9608 .00 or 9609.00	Parts of pencils including clutch pencils used in the manufacture of such pencils
76.	9608.00	Pens and parts thereof of value not exceeding Rs.100 per piece
77.	9608.00	Ball point pens including refills for ball point pens and parts thereof of value not exceeding Rs.100 per piece
78.	9608.00	Pencils
79.	Any Chapter	Specified non-conventional energy devices/systems
80.	Any Chapter	Parts of aeroplanes or helicopters required for manufacture or servicing of aeroplanes or helicopter (other than rubber tyres and tubes for aeroplanes)

2002-03	2003-04	2004-05	2005-06
0%	4% without credit or 8% with credit	8% without credit or 12% with credit	16%

81.	Any Chapter	Parts used in the manufacture of locomotives, wagons and coaches covered under 8601 to 86.06, subject to the condition that they are used within the factory of production or in any other factory of the same manufacturer, in the manufacture of goods falling under heading No. 86.01 to 86.06.
82.	Any Chapter	Goods captively consumed for fabrication on chassis, mounting/ fitting of structure or equipment on a chassis of motor vehicles of heading No. 87.02 or 87.04 subject to the condition that they are manufactured from duty paid chassis.
83.	Any chapter	Mixture of graphite and clay; Aluminium ferrules used for captive consumption in the manufacture of pencils of chapter heading No. 96.08 or 96.09
84.	4901.20	Maps, Globes
85.	7204.21	Waste and scrap arising out of the manufacture of cold rolled stainless steel pattis and pattas
86.	7219.30	Pattis/ pattas when subjected to any process other than cold-rolling
87.	7220.30	Pattis/ pattas when subjected to any process other than cold-rolling
88.	7222.50	S.S.circles used within the factory of production for the manufacture of utensils
89.	7310.00	Metal containers manufactured without power
90.	7325.90	Castings and forgings for the manfr of sewing machines and chaff cutters (toka machines) used for cutting animal fodder
91.	76.12	Metal containers in or in relation to the manufacture of which no process is ordinarily carried on with the aid of power
92.	7602.10	Waste and scrap used within the factory of production for the manufacture of unwrought aluminium plates and sheets
93.	Any chapter	Goods other than (a) electrical stampings and laminations; (b) bearings; and © winding wires if used in the

2002-03	2003-04	2004-05	2005-06
0%	4% without credit or 8% with credit	8% without credit or 12% with credit	16%

		manufacture of power driven pumps for handling water.
94.	5801.11, 5801.91, 5802.41 5802.51	Woven pile fabrics of wool and other textile materials (other than cotton, man-made or jute), terry towelling & similar woven terry fabrics of other textile materials, tufted textile fabrics, not subjected to any process
95.	60	Knitted/crocheted fabrics of man-made fibres, unprocessed, if no CENVAT credit is availed
96.	60	Knitted/crocheted fabrics of cotton & of other textile materials (unprocessed/processed), if no CENVAT credit is availed
97.	61.01	Knitted/crocheted articles of apparel, if no CENVAT credit is availed
98.	51, 52, 53, 54 or 55	Fabrics woven on handlooms and processed, by a factory owned by a State Government Handloom Development Corporation or an Apex Handloom Co-operative Society approved, in either case, by the Government of India on the recommendation of the Development Commissioner of Handlooms, or by a factory owned by the KVIC or any organisation approved by the KVIC for the purpose of processing such fabrics
99.	51, 52, 54 or 55	Multiple (folded) or cabled yarn manufactured in a factory which does not have the facilities (including plant and equipment) for producing single yarn, manufactured out of duty paid yarn of Chapters 51, 52, 54 or 55.
100.	51, 52	Dyed, printed, bleached or mercerised yarn (other than yarn containing synthetic or artificial staple fibres), whether single, multiple (folded) or cabled, manufactured in a factory which does not have the facilities (including plant and equipment) for producing single yarn, manufactured out of duty paid yarn falling under Chapters 51 or 52
101.	5104.00	Garnetted stock of wool or of fine or coarse animal hair
102.	5106.00	Yarn of wool purchased by a registered Apex Handloom Co-operative Society, the National Handloom Development

2002-03	2003-04	2004-05	2005-06
0%	4% without credit or 8% with credit	8% without credit or 12% with credit	16%

		Corporation or a State Government Handloom Development Corporation, and the payment for which is made by cheque drawn by such Co-operative Society or Corporation, as the case may be, on its own bank account
103.	5106.00	Yarn of wool of counts upto 10 in plain (straight) reel hanks, whether single or multiple (folded) and intended for manufacturing carpets
104.	5106.00	Dyed, printed, bleached or mercerised yarn, whether single, multiple (folded) or cabled, manufactured in a factory which does not have the facilities (including plant and equipment) for producing single yarn manufactured without the aid of power out of duty paid yarn of Chapters 51, 52, 54 or 55
105.	5106.90	Yarn of carded wool, manufactured without the aid of power
106.	5107.90	Yarn of combed wool, manufactured without the aid of power
107.	5110. 00	Woven fabrics of wool when subjected to any one or more of the following processes, namely:-(a) Calendering with plain rollers;(b) Blowing (steam pressing), not processed in a factory having facilities for bleaching, dyeing, printing or any one or more of these processes with the aid of power or steam
108.	5105.10	Carded wool, popularly known as 'lefa' intended for making hand spun yarn of upto 10 counts
109.	5105.10	Carded wool used captively in the manufacture of yarn of wool
110.	5110.00	Fabrics of wool, woven on looms other than handlooms and subjected to any process, not containing any worsted yarn or made of shoddy yarn or melton cloth (made of shoddy yarn), where the value of such fabrics does not exceed Rs. 150 per square metre
111.	5110.00	Fabrics woven on handlooms, namely:-(a) certified as "khadi" by the KVIC; or (b) processed without the aid of power or steam; (c) processed with the aid of power by a

2002-03	2003-04	2004-05	2005-06
0%	4% without credit or 8% with credit	8% without credit or 12% with credit	16%

		factory owned by a registered handloom co-operative society or any organisation set up or approved by Government for the purpose of development of handlooms; or (d) processed by an independent processor approved in this behalf by the Government of India on the recommendation of the Development Commissioner for Handlooms.
112.	52, 54 , 55	Pleated or embossed fabrics manufactured out of processed fabrics on which the appropriate duty of excise has already been paid
113.	52, 54 or 55	Yarn consumed within the factory of production in the manufacture of multiple (folded) or cabled yarn, whether or not dyed, printed, bleached or mercerised, and such multiple (folded) or cabled yarn is purchased by a registered Apex Handloom Co-operative Society, the National Handloom Development Corporation or a State Government Handloom Development Corporation, and the payment for which is made by cheque drawn by such Co-operative Society or Corporation, as the case may be, on its own bank account
114.	5205.11	The following goods purchased by a registered Apex Handloom Co-operative Society, the National Handloom Development Corporation or a State Government Handloom Development Corporation, and the payment for which is made by cheque drawn by such Co-operative Society or Corporation, as the case may be, on its own bank account, namely :- (a) Cotton yarn (not containing synthetic staple fibres), supplied in cross reel hanks; or (b) Cotton yarn, containing polyester staple fibre and not containing any other textile material, in which the proportion of polyester staple fibre is more than 40% by weight of the total fibre content.
115.	5205.90	Cotton yarn (other than sewing thread), manufactured without the aid of power

2002-03	2003-04	2004-05	2005-06
0%	4% without credit or 8% with credit	8% without credit or 12% with credit	16%

116.	5207.00	Cotton fabrics woven on handlooms and processed with the aid of power or steam by a factory owned by a registered handloom co-operative society or any organisation set up or approved by the Government for the purpose of development of handlooms
117.	5207.00	Woven fabrics of cotton when subjected to any one or more of the following processes, namely :- (1) Calendering (other than calendering with grooved rollers);(2) Flanellete raising; (3) Stentering; (4) Damping on grey and bleached sorts; (5) Back filling on grey and bleached sorts; (6) Singeing, that is to say, burning away of knots and loose ends in the fabrics; (7) Scouring, that is to say, removing yarn size and natural oil found in cotton; (8) Cropping or butta cutting; (9) Curing or heat setting; (10) Padding, that is to say, applying starch or fatty material on one or both sides of the fabric;(11) Expanding; or (12) Hydro-extraction with the aid of power, that is to say, mechanically extracting or mechanically squeezing out water from the fabric.not processed in a factory having facilities for bleaching, dyeing, printing or any one or more of these processes with the aid of power or steam.
118.	5207.00	Cotton fabrics intended for use in the manufacture of cotton absorbent lint
119.	5304.00	Sisal and manila fibre and yarn thereof, in relation to the manufacture of which no process is ordinarily carried on with the aid of power
120.	5306.90	Flax yarn, manufactured without the aid of power
121.	5307.11	Sisal and manila twist yarn, thread, ropes and twine, all sorts, if consumed within the factory in which it is produced for the manufacture of sisal and manila products falling under Chapter 53, 56, 57 or 63 of the said Schedule
122.	5307.90	Yarn of jute or other textile bast fibres of heading No. 53.03, manufactured without the aid of power

2002-03	2003-04	2004-05	2005-06
0%	4% without credit or 8% with credit	8% without credit or 12% with credit	16%

123.	5308.90	Yarn of other vegetable textile fibres and paper yarn, manufactured without the aid of power
124.	54 06.10	Woven fabrics of man made fibres subjected to any one or more of the following processes, namely :- (1) Calendering with plain rollers; (2) Singeing, that is to say, burning away of knots and loose ends in the fabrics; (3) Padding, that is to say, application of natural starch to one or both sides of the fabrics; (4) Back filling, that is to say, application of starch to one side of the fabrics; (5) Cropping, that is to say, cutting away mechanically of loose ends from the fabrics;(6) Hydro-extraction, that is to say, mechanically extracting, or mechanically squeezing out water from the fabric; or (7) The process of blowing (steam pressing) carried on woven fabrics of acrylic fibre not processed in a factory having facilities for bleaching, dyeing, printing or any one or more of these processes with the aid of power or steam
125.	5402.10	Nylon filament yarn or polypropylene multifilament yarn of 210 deniers with tolerance of 6 per cent.
126.	5402.31	Dyed, printed, bleached or mercerised yarns, whether single, multiple (folded) or cabled, manufactured in a factory which does not have the facilities (including plant and equipment) for producing single or draw twisted or texturised yarn, manufactured without the aid of power out of duty paid yarn falling under Chapter 54
127.	5402.31	Twisted nylon filament yarn manufactured out of nylon filament yarn including crimped or textured nylon filament yarn falling within Chapter 54 of the said Schedule on which the appropriate duty of excise or the additional duty CVD, has already been paid
128.	5402.32	Twisted polyester filament yarn manufactured out of textured or draw-twisted polyester filament yarn falling within Chapter 54 of the said Schedule on which the

2002-03	2003-04	2004-05	2005-06
0%	**4% without credit or 8% with credit**	**8% without credit or 12% with credit**	**16%**

		appropriate duty of excise or the additional duty CVD has already been paid
129.	5402.39 or 5402.59	Twisted polypropylene filament yarn manufactured out of polypropylene filament yarn on which appropriate duty of excise or the additional duty CVD has already been paid
130.	5403.20 or 5403.32	Twisted viscose filament yarn manufactured out of viscose filament yarn including textured viscose filament yarn falling within Chapter 54 of the said Schedule on which the appropriate duty of excise, or the additional duty CVD, has already been paid
131.	5404.10	Nylon monofilament yarn, of denierage 210, 330, 420, 630, 840, 1050, 1260 or 1680, with tolerance of 4 per cent.
132.	5404.10	Monofilament of high density polyethylene or polypropylene, if no credit under the CENVAT Credit Rules, has been availed
133.	5406.21	Fabrics of polyester filament yarn containing cotton and polyester staple fibre in which the proportion of polyester staple fibre or filament yarn or both is less than 70% by weight of the total fibre content and processed by a factory owned by a registered handloom co-operative society or any organisation set up or approved by the Government for the purpose of development of handlooms
134.	5406.21	Fabrics, woven on handlooms and,- (a) processed without the aid of power or steam; or (b) processed with the aid of power or steam by a factory owned by a registered handloom co-operative society or any organisation set up or approved by Government for the purpose of development of handlooms.
135.	5406.21	Woven fabrics (excluding fabrics of polyester filament yarn containing cotton and polyester staple fibre in which the proportion of polyester staple fibre or filament yarn or both is less than 70% by weight of the total fibre content), processed without the aid of power or steam, with or

2002-03	2003-04	2004-05	2005-06
0%	**4% without credit or 8% with credit**	**8% without credit or 12% with credit**	**16%**

		without the use of machines
136.	55.09 or 55.10	The following goods if purchased by a registered Apex Handloom Co-operative Society, the National Handloom Development Corporation or a State Government Handloom Development Corporation, and the payment for which is made by cheque drawn by such Co-operative Society or Corporation, as the case may be, on its own bank account, namely:- (a) yarn of counts not exceeding 25 of artificial staple fibre, not containing synthetic staple fibres and supplied in cross reel hanks;(b) yarn of polyester staple fibre containing cotton (not containing any other textile material) and in which the proportion of polyester staple fibre is less than 70 per cent. by weight of the total fibre content;(c) yarn of polyester staple fibre containing cotton, ramie or artificial staple fibre or any on or more of these fibres (not containing any other textile material) and in which the proportion of polyester staple fibre is less than 70 per cent. by weight of the total
137.	55.11, 55.12, 55.13 or 55.14	Fabrics of man made staple fibres woven on handlooms and processed without the aid of power or steam, or fabrics of man made staple fibres woven on handlooms processed with the aid of power or steam by a factory owned by a State Government Handloom Development Corporation or an Apex Handloom Cooperative Society approved by Government of India for the development of Handlooms, other than the following, namely :- (a) fabrics containing only polyester and cotton in which the proportion of polyester staple fibre is less than 70% by weight of total fibre content; and (b) fabrics containing only polyester staple fibre and any one or more of the following fibres, namely, cotton, ramie and artificial fibre in which the proportion of polyester staple fibre is more than 40% but less than 70% by weight of total fibre content.
138.	5501.20	Polyester tow consumed within the factory of production in

2002-03	2003-04	2004-05	2005-06
0%	4% without credit or 8% with credit	8% without credit or 12% with credit	16%

		the manufacture of polyester staple fibre
139.	5510.00	Yarn of artificial staple fibre in or in relation to the manufacture of which no process is ordinarily carried on with the aid of power
140.	5511.00	Fabrics of man made staple fibres woven on looms other than handlooms and processed without the aid of power or steam, with or without the use of machines, other than the following, namely :-(a) Fabrics containing only polyester and cotton in which the proportion of polyester staple fibre is less than 70% by weight of total fibre content; and (b) Fabrics containing only polyester staple fibre and any one or more of the following fibres, namely, cotton, ramie and artificial fibre in which the proportion of polyester staple fibre is more than 40% but less than 70% by weight of total fibre content.
141.	5511.21	Synthetic fabrics consumed within the factory in which it is produced for the manufacture of shoddy blankets falling within Chapter 63 of the said Schedule provided that such fabrics are manufactured out of shoddy yarn and in respect of such blankets exemption from the whole of the duty of excise leviable thereon, is not availed of
142.	5511.21	Synthetic fabrics processed within the factory in which it is produced for the manufacture of shoddy blankets falling within Chapter 63 of the said Schedule provided that such fabrics are manufactured out of shoddy yarn and the value of synthetic shoddy blankets manufactured out of such fabrics does not exceed one hundred and fifty rupees per square metre and the procedure for end use is followed if the said fabrics are processed elsewhere than in the factory of production
143.	56.07 or 56.09	All goods made without the aid of power
144.	5607.00	All goods (other than dipped cords falling under sub-heading

2002-03	2003-04	2004-05	2005-06
0%	4% without credit or 8% with credit	8% without credit or 12% with credit	16%

		5607.90 of the said Schedule) made from yarn, monofilament, tapes or strips on which the appropriate duty of excise leviable or the additional duty CVD has already been paid
145.	5608.11	Made up fishing nets of man-made textile materials
146.	5701.00	Hand-made carpets whether or not any machines have been used to achieve better finish during pre-weaving or post-weaving operations
147.	5702.11 or 5702.90	Carpet and other textile floor coverings (other than those of heading No. 57.01), knotted woven, tufted or flocked, whether or not made up:- (i) manufactured with the aid of machines; (ii) of coconut fibres (coir) or jute
148.	5703.10	Other carpets and other textile floor coverings, whether or not made up, of coconut fibres (coir)
149.	58.01 58.02 58.06	All goods in or in relation to the manufacture of which no process is ordinarily carried on with the aid of power or steam.
150.	5804.90	Tulles and other net fabrics, not including woven, knitted or crocheted fabrics, lace in the piece, in strips or in motifs, manufactured without the aid of power
151.	5805.00	Embroidery, other than those not subjected to any process
152.	5805.90	Embroidery in the piece, in strips or in motifs, manufactured without the aid of vertical type automatic shuttle embroidery manufactured without the aid of power
153.	5806.39	The following goods, namely :- (a) Hair belting of wool; (b) Strips of jute made from fabrics on which the appropriate duty of excise under the said Schedule has already been paid and intended for supply to the Indian Army.
154.	5807.00	Labels, badges and similar articles of textile materials, in the piece, in strips or cut to shape or size, not embroidered
155.	5808.10	Braids in the piece, ornamental trimmings in the piece, without embroidery, other than knitted or crocheted,

2002-03	2003-04	2004-05	2005-06
0%	**4% without credit or 8% with credit**	**8% without credit or 12% with credit**	**16%**

		tassels, pompons and similar articles, not subjected to any process
156.	5906.91	Knitted or crocheted rubberised textile fabrics
157.	5906.99	Rubberised textile fabrics, if no CENVAT credit 1944 has been availed
158.	5907.30	Impregnated, coated or covered textile fabrics (except those covered partially or fully with flocks or with preparation containing textile flocks); painted canvas being theatrical scenery, studio back-cloths or the like, manufactured without the aid of power
159.	5907.90	Theatrical scenery, studio back cloths manufactured without the aid of power
160.	5910.00	Unprocessed cotton belting, woven
161.	5911.90	Printing frames intended for use either within the factory of production or in any other factory of the same manufacturer, in printing of textile fabrics and in respect of use in the said other factory, the procedure set out for end use, is followed
162.	6001.00 or 6002.00	Knitted or crocheted fabrics processed without the aid of power or steam.
163.	61 or 62	Raincoats and undergarments
164.	6102.00 or 6202.00	Clothing accessories, whether or not knitted or crocheted
165.	62.01	Woven articles of apparel made of handloom fabrics
166.	6301.00	The following blankets, the value of which does not exceed Rs.150 per square metre, namely:-(a) blankets of wool; (b) blankets of yarn of shoddy falling under heading No.55.09 or heading No.55.10 of the said Schedule
167.	6301.10	Made up textile articles made out of handloom fabrics
168.	3916.10	Plastic canes
169.	4011.10	Tyres for cycles, rickshaws

2002-03	2003-04	2004-05	2005-06
0%	4% without credit or 8% with credit	8% without credit or 12% with credit	16%

170.	4013.10	Inner tube, of rubber, for tyres, of a kind used on bicycles, cycle rickshaws and three-wheeled powered cycle rickshaws
171.	5004.11	Silk yarn and yarn spun from silk waste, silk-worm gut,- (i) manufactured without the aid of power; or (ii) manufactured with the aid of power, and containing 85% or more by weight of silk or silk waste
172.	5005.00	Woven fabrics of silk or of silk waste
173.	5207.00	Cotton fabrics processed without the aid of power or steam
174.	7315.00	Chains of cycle and cycle rickshaws
175.	7326.19	Forging of iron & steel for cycles, rickshaws
176.	7326.21	Tyre bead rings for cycles, rickshaws
177.	8512.00	Dynamos, head lamps, side lamps, tail lamps of cycle and cycle rickshaws
178.	8524.32	Audio Cassettes, recorded
179.	8714.91	Parts of Bicycles and other cycles, not motorised.
180.	8413.91	Parts of hand pumps for handling water
181.	8414.91	Parts and accessories of bicycle pumps
182.	8424.10	Mechanical appliances of a kind used in agriculture or horticulture
183.	8424.91	Parts of the above agricultural machinery
184.	8432.00	Agricultural, horticultural or forestry machinery for soil preparation or cultivation, lawn or sports ground rollers
185.	8433.00	Harvesting or threshing machinery, machines for cleaning, sorting, grading eggs, fruit or other agricultural produce
186.	8436.00	Other agricultural, horticultural , poultry keeping or bee-keeping machinery,
187.	8437.00	Machines for cleaning, sorting, grading seed, grain or dried vegetables, machines used in milling industry.
188.	8452.11	Hand operated sewing machines
189.	8481.20 8481.92	Bicycle valves and parts thereof

Annexure B-3

COMMODITIES PRESENTLY ATTRACTING 4% CENTRAL EXCISE DUTY

EFFECTIVE RATE (2002-2003)	2003-2004	2004-2005
4%	***8% without credit or 12% with credit***	***16%***
CHAPTER	**COMMODITY**	
30	Unbranded wadding, gauze, bandages	
44	Articles of wood other than flush doors	
48	Registers, account books etc (but excluding notebooks and exercise books), Paper and Paperboard labels, Paper and paper pulp moulded trays	
56	Metallic yarn (imitation zari)	
59	Adhesive tape of width less than 20 cm	
59	Tubular knitted gas mantle fabric, whether or not impregnated, for use in incandescent gas mantles	
66	Umbrellas & Sun Umbrellas	
66	Walking sticks, seat sticks, whips, riding-crops and the like	
68	Articles of mica	
68	Lightweight (solid or hollow) concrete building blocks	
68	Mosaic tiles, that is to say, tiles known commercially as 'mosaic tiles'	
70	Clock or watch glasses, Laboratory , hygenic or pharma glassware	

73	Table,kitchen articles of iron and steel other than stoves, presuure cookers (other than parts)
74	Table,kitchen articles of copper (other than parts)
76	Table,kitchen articles of aluminium (other than parts)
82	Knives, Spoons, forks, ladles and similar kitchenware/tableware
84	Crankshafts for sewing machines
84	Power driven pumps for handling water , Bicycle pumps and hand pumps
87	Bicycles and other cycles, not motorised
90	Instruments and appliances used in medical , surgical , dental or vetinary sciences , mechano therapy appliances , specified medical equipment and other goods and X ray apparatus for medical , dental , vetinary use, other than parts and accessories thereof
94	Kerosene Pressure lanterns
94	Pre fabricated buildings
95	Wheeled toys, Dolls and other toys (other than parts and accessories thereof)

Annexure B-4

COMMODITIES PRESENTLY ATTRACTING 8% DUTY

EFFECTIVE RATE (2002-2003)	**2003-2004**	**2004-2005**	**2005-2006**	**2006-2007**
8% without credit	***12%***	***16%***	***16%***	***16%***

Chapter	Commodity
34	Candles
52	Cotton yarn
70	Tableware and kitchenware of glass
71	Imitation jewellery
85	Monochrome television receivers
85	Vacuum and gas filled bulbs of retail sale price not exceeding Rs 20 per bulb
90	Sunglasses for correcting vision
91	Watches and clocks of retail sale price not exceeding Rs 500 per piece
96	Toothbrushes

Annexure B-5

	COMMODITIES ATTRACTING 12% CENTRAL EXCISE DUTY			
EFFECTIVE RATE (2002-2003)	**2003-2004**	**2004-2005**	**2005-2006**	**2006-2007**
12%	***12%***	***12%***	***16%***	***16%***

Sl. No.	**Chapter**	**Commodity**
1	61	Textile fabrics
2	61	Textile garments
3	61	Textile made-ups

Annexure B - 6

	COMMODITIES ATTRACTING 14% CENTRAL EXCISE DUTY	

EFFECTIVE RATE (2002-2003)	**2003-2004**	**2004-2005**	**2005-2006**	**2006-2007**
14%	***16%***	***16%***	***16%***	***16%***

Sl.No.	**CHAPTER**	**COMMODITY**
1	27	High Speed Diesel Oil. (An additional duty of Rs 1/litre is also charged)

Annexure B-7

	COMMODITIES ATTRACTING 30% CENTRAL EXCISE DUTY

EFFECTIVE RATE (2002-2003)	**2003-2004**	**2004-2005**	**2005-2006**	**2006-2007**
30%	***28%***	***24%***	***20%***	***16%***

Sl. No.	**Chapter**	**Commodity**

	27	Motor Spirit (Petrol) (An additional duty of Rs 7/litre is also charged)

Annexure B - 8

	COMMODITIES ATTRACTING 32% CENTRAL EXCISE DUTY			
EFFECTIVE RATE (2002-2003)	**2003-2004**	**2004-2005**	**2005-2006**	**2006-2007**
32%	***28%***	***24%***	***20%***	***16%***

Sl.No.	Chapter	Commodity
1	21	Aerated soft drinks and soft drink concentrates
2	21	Pan Masala
3	24	Chewing tobacco and preparations containing chewing tobacco;pan masala containing tobacco
4	40	Tyres for replacement purpose
5	55	Polyester filament yarn
6	84	Air-conditioners
7	87	Motor cars and multi-utility vehicles and chassis thereof

Annexure B - 9

COMMODITIES ATTRACTING SPECIFIC RATES

CHAPTER	COMMODITY	PRESENT RATE(2002-2003)	2003-04	2004-05	2005-06	2006-07	
17	Levy Sugar	Rs. 38 per quintal	4%	8%	8%	8%	
17	Non- levy Sugar	Rs. 71 per quintal	8%	8%	8%	8%	
25	Ordinary Portland cement	Rs. 350 per MT	16%	16%	16%	16%	
25	Cement Clinker	Rs. 200 per MT	16%	16%	16%	16%	
25	Marble slabs and tiles	Rs. 30 per square mt	16%	16%	16%	16%	
36	**Matches** (i)non-machanised cottage sector	Re 0.50 for 100 packs of 50 matches each.	16%	16%	16%	16%	
36	**Matches** (ii) non-machanised middle sector	Re 1.00 for 100 packs of 50 matches each.	16%	16%	16%	16%	
36	**Matches** (iii) semi-mechanised sector	Rs 2.00 for 100 packs of 50 matches each.	16%	16%	16%	16%	
36	**Matches** (iv) mechanised sector	Rs 3.00for 100 packs of 50 matches each.	16%	16%	16%	16%	

9	Tea	Re.1 per kg.	Exempt fully	
17	Molasses	Rs. 500 per tonne	Specific levy to be retained	
24	Biris(a) Hand-made (b) Machine made	(a)Rs. 7 per 1000 biris (b)Rs. 17 per 1000 biris	Specific levy to be retained	
24	Cigarettes (a) non-filter (b) filter	(a)Varies from Rs. 135 to Rs. 450 per 1000 cigarettes, based on the length of the cigarettes (b)Varies from Rs. 670 to Rs. 1780 per 1000 cigarettes, based on the length of the cigarettes	Specific levy to be retained	

ANNEXURE B-10

Excise exemptions which can be retained

S No	CH/SH	DESCRIPTION OF GOODS
1	0201. 00	Meat and edible meat offals
2	0301. 00	Fish and crustaceans, molluscs and other aquatic invertebrates
3	0701. 00	Dried vegetables, including potatoes, onions and mushrooms, whole, cut, sliced, broken or in powder, but not further prepared; dried leguminous vegetables, including peas and beans, shelled, whether or not skinned or split.
4	0702.	Other edible vegetables, roots and tubers

S No	CH/SH	DESCRIPTION OF GOODS
	00	
5	0801.00	Edible fruits and nuts; peel of citrus fruit or melons
6	0902.00	Green Tea
7	1101.00	Products of the milling industry, including flours, groats, meal and grains of cereals, and flour, meal or flakes of vegetables
8	1104.00	Inulin; wheat gluten, whether or not dried
9	13	Lac
10	13	Vegetable saps and extracts, used within the factory of their production for the manufacture of medicaments which are exclusively used in Ayurvedic, Unani or Siddha systems
11	1301.90	Lac, gums, resins and other veg. saps manufactured witout the aid of power
12	1401.00	Vegetable plaiting materials; vegetable products, not elsewhere specified or included
13	1701.10	Sugar, in or in relation to the manufacture of which no process is ordinarily carried on with the aid of power
14	1701.20	Khandsari sugar
15	1702.11	Palmyra sugar
16	1703.90	All goods, for use in the manufacture of goods other than alcohol (Khandsari molasses)
17	1905.90	Bread and other baker’s wares (other than cakes, pastry and biscuits, waffles and wafers)
18	2108.30	Prasad or Prasadam
19	2201.20 or 2202.20	Aerated waters prepared and dispensed by vending machines
20	2204.90	Ethyl alcohol other than de natrured
21	2301.00	Residues and waste from the food industries
22	24.04	Biris, other than paper rolled biris, manufactured without the aid of machines, by a manufacturer by

S No	CH/SH	DESCRIPTION OF GOODS
		whom or on whose behalf no biris are sold under a brand name (as defined in NOTE 1 to Chapter 24), in respect of first clearances of such biris for home consumption by or on behalf of such manufacturer from one or more factories upto a quantity not exceeding 20 lakhs cleared on or after the 1st day of April in any financial year.
23	2401. 10	Unmanufactured tobacco, not bearing a brand name
24	2404. 91	Tobacco extracts not bearing a brand name
25	2404. 99	Tobacco, used for smoking through 'hookah, or 'chillum', commonly known as 'hookah' tobacco or 'gudaku'
26	2501. 00	Salt and pure sodium chloride
27	2505. 00	Mineral substances not elsewhere specified (clay, sulphur)
28	26.01 to 26.07	Ores
29	2701. 00	Coal, Lignite, peat, coke
30	2705. 00	Coal gases, and similar gases other than petroleum gases, and other gaseous hydro carbons
31	2706. 00	Tar distilled from coal/ lignite/peat and other mineral tars
32	2706. 00	Tar distilled from coal/ lignite/peat and other mineral tars
33	2709. 00	Petroleum oils and oils obtained from bituminous minerals, crude
34	2710. 00	Naphtha and Natural Gasoline Liquid intended for use -(i) within the Heavy Water Plant at Baroda or Tuticorin for the manufacture of Synthesis gas or ammonia or both which are to be utilised in the manufacture of Heavy Water in such plants;(ii) by M/s. Gujarat State Fertilizer Corporation, Baroda or M/s. Southern Petro Chemicals Industrial Corporation, Tuticorin, for manufacture of synthesis gas or ammonia or both and if the synthesis gas or ammonia or both so manufactured is supplied respectively to the Heavy Water Plants at Baroda or Tuticorin for the manufacture of Heavy Water in such Plants.

S No	CH/SH	DESCRIPTION OF GOODS
35	2710.00	Synthesis gas, if used in the manufacture of Heavy Water
36		
37	2711.00	Bio-gas
38	2711.21	Natural gas in gaseous state
39	28	Thorium Oxalate
40	28	Gold potassium cyanide used within the factory of production for manufacture of gold jewellaery
41	28	All goods used within the factory of production for manufacture of gold jewellery
42	28 or 29	Specified bulk drugs for NHP
43	28 or 29	Specified goods used for the manufacture of exempted bulk drugs (NHP)
44	28 or 29	All chemicals used in the manufacture of centchroman
45	28 or 38	Silicon in all forms
46	28, 29 or 30	Specified Bulk drugs, or formulation (anti-AIDS)
47	2804.12	Oxygen, for use in the manufacture of heavy water
48	2804.21	Hydrogen, consumed within the factory of production
49	2804.31	Nitrogen, for use in the manufacture of heavy water
50	2804.31	Nitrogen, for use in the manufacture of heavy water
51	2804.33	Nitrogen, consumed within the factory of production
52	2805.11	Potassium metal, for use in a heavy water plant
53	2811.90	Steam
54	2814.10	Ammonia, for use in the manufacture of heavy water
55	2837.00	Gold potassium cyanide solution used within the factory of production for manufacture of zari
56	2844.10	Nuclear fuel
57	2844.20	Thorium Hydroxide

S No	CH/SH	DESCRIPTION OF GOODS
58	2845. 10	Nuclear fuel
59	2845. 20	Heavy water (Deuterium Oxide)
60	2851. 11	Distilled or conductivity water and water of similar purity used within the factory of production
61	2851. 21	Liquid air, used within the factory of production
62	2851. 30	Compressed air
63	2941. 00	2-Cyanopyrazine
64	3002. 00	Antisera and other blood fractions; vaccines, toxins, cultures of microorganisms and similar products
65	3003. 00	Formulations manufactured from the specified bulk drugs (NHP)
66	3003. 00	Desferrioxamine injection or Deferiprone
67	3003. 31	Medicaments, including those used in Ayurvedic, Unani, Siddha, Homoeopathic or bio-chemic systems manufactured exclusively in accordance with authoritative books specified in the First Schedule to the Drugs and Cosmetics Act,1940---
68	3003. 32	Medicaments (including veterinary) used in bio-chemic system and not bearing a brandname
69	3005. 10	Chemical contraceptives
70	3005. 30	Oral rehydration salts
71	3005. 90	Intravenous fluids
72	3307. 41	'Agarbatti', 'Dhoop' and similar preparations in whatever form
73	3307. 60	Kumkum (including sticker kumkum), kajal, sindur, alta or mahavar
74	3824. 20	Concrete mix manufactured at the site of construction for use in construction work at such site
75	3903. 00	Unexpanded polystyrene beads purchased by the Malaria Research Centre
76	40.11, 40.12 or 40.13	Tyres, flaps and tubes used in power tillers and vehicles for physically handicapped
77	4001.	Natural Rubber

S No	CH/SH	DESCRIPTION OF GOODS
	00	
78	4014.10	Sheath contraceptives
79	4101.00	Leather
80	4401.00	Wood wool, wood flour
81	4403.00	Wood sawn or chipped lengthwise
82	45, 48, 68, 73, 85 or 87	Parts of main battle tanks subject to end use condition
83	47.01	Mechanical wood pulp, chemical wood pulp, semi-chemical wood pulp and pulps of other fibrous cellulosic materials
84	4702.10	Recovered paper waste arising in the course of printing of textbooks
85	4801.00	Newsprint
86	4802.00	Security paper
87	4802.30	Maplitho paper supplied to a braille press against an indent placed by the National Institute for Visually Handicapped, Dehradun
88	4804.10	Kraft paper supplied to a braille press against an indent placed by the National Institute for Visually Handicapped, Dehradun
89	4823.10	Braille paper
90	4901.90	Printed books, newspapers, pictures and other products of printing industry
91	5001.00	Silk-worm cocoons suitable for reeling
92	5002.00	Raw silk
93	5003.00	Silk waste (including cocoons unsuitable for reeling, yarn waste and garnetted stock)
94	5101.00	Wool, not carded or combed
95	5102.00	Fine or coarse animal hair, not carded or combed
96	5103.	Waste of wool or of fine or coarse animal hair,

S No	CH/SH	DESCRIPTION OF GOODS
	00	including yarn waste, but excluding garnetted stock
97	5201.00	Cotton, not carded or combed
98	5202.00	Cotton waste (including yarn waste and garnetted stock)
99	5207.00	Khadi, that is to say, any cloth woven on a handloom in India either wholly from cotton yarn or in admixture with silk or woollen yarn, handspun in India and certified as Khadi by an officer duly authorised in this behalf by the KVIC
100	5207.00	Poly Vastra, that is to say, any cloth containing cotton and polyester woven on handloom from yarns hand spun in India and certified as Poly Vastra by an officer duly authorised in this behalf by the KVIC and processed by a factory owned by the KVIC or any organisation approved by the KVIC for the purpose of processing of Poly Vastra
101	5207.10	Fabrics of cotton or man made fibres woven in a prison and subjected to further process outside the prison by an independent processor or a composite mill
102	5301.00	Flax, raw or processed, but not spun; flax tow and waste (including yarn waste and garnetted stock)
103	5303.00	Jute and other textile bast fibres (excluding jute, true hemp and ramie) raw or processed but not spub; tow and waste of these fibres (including yarn waste and garnetted stock)
104	5305.31	Ramie, raw or processed but not spun; tow, noils and waste of ramie (including yarn waste and garnetted stock)
105	5509.21	*Poly Vastra*, that is to say, any cloth containing cotton and polyester woven on handloom from yarns hand spun in India and certified as Poly Vastra by an officer duly authorised in this behalf by the KVIC and processed by a factory owned by the KVIC or any organisation approved by the KVIC for the purpose of processing of Poly Vastra
106	6307.10	Indian National Flag
107	68 or 69	Sandlime bricks
108	6807.00	Mosaic tiles & articles of mica
109	6807.	Goods manufactured at construction site for use in

S No	CH/SH	DESCRIPTION OF GOODS
	00	construction work at that site
110	6807.10	Goods in which more than 25% by weight of red mud, press mud or blast furnace slag or one or more of these materials, have been used
111	6807.20	All goods
112	6807.90	Goods, in which not less than 25% by weight of fly-ash or phospho-gypsum or both have been used
113	6901.10	Clay bricks other than fire clay bricks.
114	6901.20	Burnt clay tiles conforming to ISI specification 3367-1975
115	6903.10	Roofing tiles
116	6906.10	Glazed tiles manufactured by a manufacturer exclusively engaged in the process of printing, decorating or ornamenting of the said glazed tiles on job work basis, by whom or on whose behalf no glazed tiles are sold, if no CENVAT credit is taken.
117	7101.10	Diamonds, cut or polished or both
118	7101.31	Primary forms of silver, platinum, palladium, rhodium, iridium, osmium and ruthenium
119	7101.31	Silver
120	7101.39	Primary gold converted from any form of gold, with the aid of power
121	7101.39	Articles of ornaments, Waste and scrap of precious metal, dust and powder of semi-precious stones
122	7101.60	Strips, wires, sheets, plates and foils of silver
123	7101.70	Articles of gold, silver, Platinum etc., Ornaments made of gold or silver, Strips, wires etc., of gold used in the manufacture of jewellery and Precious or semi-precious stones, synthetic stones and pearls
124	7222.50	HR/CR sheets and strips cut or slit on job-work
125	7308.50	Fabrications at construction site
126	7608.20	Aluminium extrusions, etc., for manufacture of artificial limbs & specified rehabilitation aids
127	8206.00	Tools put up in sets
128	84 or	Specified goods intended to be used for the

S No	CH/SH	DESCRIPTION OF GOODS
	any other chapter	installation of a cold storage, cold room or refrigerated vehicle, for preservation, storage or transport of agricultural produce
129	8401.10	Nuclear fuel
130	8442.10	Printing blocks and printing types
131	8442.20	Lithographic plates used within the factory of its production
132	8469.10	Braille typewriters
133	8502.10	Diesel generating sets assembled, at site of installation, from duty paid engine and generator
134	8524.00	Recorded Video Cassettes intended for Television Broadcasting and supplied in formats such as U-matic Betacam or any similar format
135	8524.00	Television and Sound Recording Media Such as video tapes and video discs
136	8524.00	Sound recorded magnetic tapes of width not exceeding 6.5mm, whether in spools, or reels or in other form of packing
137	8524.20	Software
138	8609.00	Marine freight containers manufactured in 100% EOU or EPZ/FTZ, when sold in India for export
139	8713.00	Invalid carriages, whether or not motorised.
140	8801.00	Aircraft, spacecraft and parts thereof
141	8901.00	Ships, boats, fishing vessels, factory ships, tugs and pusher crafts. Light-vessels, fire-floats, dredgers, etc.
142	8901.00	Ships, boats and floating structures (other than pleasure yachts, ships for breaking etc.)
143	90	Parts and accessories of specified medical equipment
144	90.18, 90.19 or 9022.10	Parts and accessories
145	9001.10	Spectacle lenses, intraocular lenses and contact lenses other than sunglasses for correcting vision
146	9003.	Frames and mountings for spectacles and goggles of

S No	CH/SH	DESCRIPTION OF GOODS
	11 9003. 19	value below Rs. 500 per piece.
147	9004. 90	Spectacles, goggles for correcting vision
148	9021. 10	Artificial limbs and rehabilitation aids for the handicapped
149	9021. 20	Orthopaedic footwear manufacturede without the aid of power
150	9021. 90	Hearing aids and others
151	9101. 10	Braille watches, with case of precious metal.
152	9102. 10	Braille watches of other types, than those of sub-heading No. 9101.10
153	9301. 00	Military weapons, other than revolvers, pistols, swords, cutlasses, bayonets etc.
154	9601. 00	Goods supplied to foreign diplomatic missions for their official use
155	Any Chapter	Cement bonded particle board, jute particle board, rice husk board, glass-fibre reinforced gypsum board (GRG), sisal-fibre boards and bagasse board
156	Any Chapter	Goods required for -(a) the substitution of ozone depleting substances (ODS); (b) the setting up of new projects with non-ozone depleting substances technologies
157	Any Chapter	Parts of hearing aids captively consumed in the manufacture of hearing aids falling under heading No. 90.21
158	Any Chapter	Water treatment plants
159	Any Chapter	Parts of aeroplanes or helicopters required for manufacture or servicing of aeroplanes or helicopter (other than rubber tyres and tubes for aeroplanes)

ANNEXURE 'C'

F.No.201/65/2002- CX 6
Government of India
Ministry of Finance & Company Affairs

Department of Revenue
Central Board of Excise & Customs

New Delhi, dated 3rd September 2002

Order

Subject : Task Force on Indirect Taxes – Constitution Reg.

Ministry of Finance and Company Affairs has decided to set up a Task Force on Indirect Taxes. The objective is to take advantage of information technology and bring the indirect tax systems and procedures at par with the best international practices and thus, encourage compliance and reduce transaction costs. Accordingly, the Task Force on Indirect Taxes is constituted as under:

1.	Dr. V.L. Kelkar, Adviser to Minister of Finance and Company Affairs	Chairman
2.	Dr. Ashok Lahiri, Delhi.	Member
3.	Prof. Jayanta Roy, Indian Institute of Management, Kolkata.	-do-
4.	Shri Sunil Kant Munjal, Hero Cycles, Ludhiana, representing CII.	-do-
5.	Shri Sanjay Bhatia, Hindustan Tin Works, Ghaziabad, representing PHD Chambers of Commerce and Industry.	-do-
6.	Shri K.S. Suresh, ITC Limited, Kolkata, representing FICCI.	-do-
7.	Shri Nihal Kothari, Hindustan Lever Limited, Mumbai, representing ASSOCHAM.	-do-
8.	Shri Y.P.Suri, Rex Enterprises, Delhi, representing FASSI.	-do-
9.	Shri K.S. Ravishankar, Bangalore, representing NASSCOM.	-do-
10.	Shri Deepak Puri, Moser Baer, Delhi, representing Electronics and Software Export Promotion Council.	-do-
11.	Shri Gautam Ray, Joint Secretary, C.B.E.C., New Delhi.	-do-
12.	Shri S.M.Bhatnagar, Director, C.B.E.C., New Delhi.	Member-Secretary

2. THE TERMS OF REFERENCE OF THE TASK FORCE ARE AS FOLLOWS :

(I) THE REVIEW OF THE CUSTOMS AND CENTRAL EXCISE LAW AND PROCEDURES AND RECOMMENDATIONS ON THEIR SIMPLIFICATION, REDUCING COST OF COMPLIANCE AND FACILITATING VOLUNTARY COMPLIANCE.

(II) RECOMMENDATIONS RELATING TO INCREASED USE OF AUTOMATION FOR A USER FRIENDLY AND TRANSPARENT TAX ADMINISTRATION.

(III) THE REVIEW OF THE STATUTORILY PRESCRIBED RECORDS, DOCUMENTS AND RETURNS (INCLUDING PERIODICITY) AND SUGGESTIONS ON THEIR UTILITY AND SIMPLIFICATION.

(IV) RECOMMENDATIONS TO PROVIDE FOR IN-BUILT MECHANISM IN THE PROCEDURES FOR TIME BOUND DISPOSAL OF MATTERS.

(V) ANY OTHER RECOMMENDATION ON DIFFERENT ASPECTS OF LEGAL PROVISIONS AND ADMINISTRATION TO FACILITATE THE TAX PAYERS AND IMPROVE COMPLIANCE.

3. The terms and conditions of the Task Force will be as follows :

(i) The Task Force should furnish to the Government a Draft Consultation Paper containing its recommendations in 45 days i.e. by 21.10.2002. The same will be made available to the public for feedback and comments by 1.11.2002 which shall be considered by the Task Force and a Final Report submitted to Government by 30.11.2002.

(ii) The Task Force is empowered to interact with departmental officials, trade interests and individuals and visit field formations as it may choose.

(iii) The non-official Task Force members would be entitled to TA/DA as per norms.

(Nisha Malhotra)
Joint Secretary (Admn.)

Chairman and Members of Task Force

Copy to

1. Director (FMO)
2. PS to Adviser to F&CAM
3. PS to MOS (Revenue)
4. PS to Secretary (Revenue)
5. PS to Chairman, CBEC
6. PS to Members, CBEC
7. Financial Adviser, Ministry of Finance & Company Affairs
8. All Directors General/Chief Commissioners of Customs & Central Excise
9. All Commissioners of Customs & Central Excise

(Nisha Malhotra)
Joint Secretary (Admn.)